1980

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1981 — Commission File number 0-7423

RAPID-AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	15-0587446 (I.R.S. Employer Identification No.)
888 Seventh Avenue, New York, New York (Address of principal executive offices)	10106 (Zip Code)

Registrant's telephone number, including area code - 212-621-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
7-1/2% Sinking Fund Subordinated Debentures, due May 15, 1985 6% Sinking Fund Subordinated Debentures, due August 15, 1988 7% Subordinated Debentures (1969 Issue), due May 15, 1994 7% Subordinated Debentures (1972 Issue), due May 15, 1994 12% Sinking Fund Subordinated Debentures, due January 15, 1999 10-3/4% Sinking Fund Subordinated Debentures, due December 1, 2003 10-3/4% Sinking Fund Subordinated Debentures, due October 1, 2004 11% Sinking Fund Subordinated Debentures, due October 1, 2005	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
10% Sinking Fund Subordinated Debentures, due August 1, 2006 Redeemable Debenture Purchase Warrants, expiring May 15, 1994	Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

None held by non-affiliates

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practical date.

Class	Outstanding at April 15, 1981
Common Stock, par value $.01 per share	2,435,607 shares

Documents incorporated by reference:

None

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Introductory Note

Registrant, a Delaware corporation formerly named Kenton Corporation ("Kenton"), is the successor to the former Rapid-American Corporation, a Delaware corporation ("Old Rapid"), which was merged (the "Merger") into Registrant on January 31, 1981 at which time the name of Registrant, as the surviving corporation of the Merger, was changed to "Rapid-American Corporation." As a result of the Merger, Registrant became a privately held corporation owned by Riklis Family Corporation and American Financial Corporation ("AFC"). Meshulam Riklis, Chairman of the Board, President and Chief Executive Officer of Registrant, and two trusts for members of Mr. Riklis' family are the sole stockholders of Riklis Family Corporation. See Note 2 to Financial Statements for a description of the terms of the Merger. Although under applicable state law, the Registrant (i.e., the corporation formerly named Kenton) is the surviving corporation of the Merger, for accounting purposes Old Rapid is treated as the continuing entity having purchased Kenton. All references to "Rapid" in this report include both constituent corporations to the Merger (i.e. Kenton and Old Rapid), and all references to Kenton herein are to Registrant prior to the Merger.

PART I.

Item 1. Business.

GENERAL

Rapid is principally engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation and sale of alcoholic beverages under various brand names, (c) through its subsidiary, McGregor-Doniger Inc. (which, together with its divisions, is sometimes referred to herein as "McGregor"), and certain other divisions and subsidiaries, including Melville Knitwear Co., Inc. ("Melville") and Plastic Toy and Novelty Corp. ("Plastic Toy"), in the manufacture and sale of a variety of consumer products, (d) through its subsidiary, Shenandoah Corporation ("Shenandoah"), in operating a thoroughbred race track, and (e) through its division, International Health Company ("IHC"), in rendering management consulting services with respect to renal dialysis centers. Melville, Plastic Toy, Shenandoah and IHC were each operating units of Kenton, which were acquired by Rapid pursuant to the Merger (see "Introductory Note" above).

At January 31, 1981, Rapid and its subsidiaries employed approximately 46,000 persons.

FINANCING ARRANGEMENTS

Working capital requirements are satisfied from operations and short-term borrowings. Reference is made to Notes 3 and 6 to Financial Statements for a description of various financing arrangements of Rapid and its subsidiaries.

SEGMENT INFORMATION

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1981, 1980 and 1979:

IDENTIFIABLE ASSETS	January 31, 1981	January 31, 1980	January 31, 1979
	(In Millions)		
Retail Merchandising:			
Lerner Stores	$ 261.2	$ 247.1	$ 247.4
McCrory Stores	206.2	192.8	198.9
OTASCO Automotive and Home Accessories Stores	103.1	111.6	105.3
Britts Department Stores and others	21.3	25.6	31.6
Alcoholic Beverages - Schenley	728.5	774.0	780.3
Industrial Group	102.1	110.5	111.0
Racing and Health Care	11.9	-	-
Investments in Non-consolidated Subsidiaries	35.3	32.6	32.1
Other Corporate Assets	92.1	93.5	77.5
Total	$1,561.7	$1,587.7	$1,584.1

Net sales of foreign operations (principally in Canada), export sales, and sales to any individual customer, each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

The contribution of each of the major business segments to consolidated net sales and operating profit were as follows:

Net Sales	Year Ended January 31, 1981	1980	1979
	(In Millions)		
Retail Merchandising:			
Lerner Stores	$ 686	$ 705	$ 695
McCrory Stores	674	619	565
OTASCO Automotive and Home Accessories Stores	259	256	220
Britts Department Stores and others	50	71	84
Alcoholic Beverages	693	746	730
Industrial Group	227	207	181
	$2,589	$2,604	$2,475

Operating Profit (Loss)	1981	1980	1979
Retail Merchandising:			
Lerner Stores	$ 83.3	$ 96.8	$101.0
McCrory Stores	43.4	42.5	34.9
OTASCO Automotive and Home Accessories Stores	18.0	19.2	18.4
Britts Department Stores and others	(3.4)	(.5)	3.2
Alcoholic Beverages	47.3	42.0	37.7
Industrial Group	(3.2)	5.7	12.2
	185.4	205.7	207.4
Unallocated Costs:			
Interest and debt expense	117.6	122.6	111.3
General corporate expenses	25.0	24.9	19.9
Other (income) earned at the corporate level	(6.3)	(4.2)	(3.0)
Equity in (income) loss of unconsolidated subsidiaries, etc.	(1.3)	(.9)	.8
	135.0	142.4	129.0
INCOME FROM OPERATIONS BEFORE INCOME TAXES	$ 50.4	$ 63.3	$ 78.4

RETAIL MERCHANDISING

At January 31, 1981, McCrory operated through its subsidiary, Lerner Stores Corporation ("Lerner"), 717 apparel specialty stores under the trade names "Lerner Shops", "Lerner" and "Jenny Lane", specializing in the sale of women's and children's apparel; through its McCrory Stores division ("McCrory Stores"), 753 variety stores under various trade names, including "McCrory", "McLellan", "H.L. Green", "J.J. Newberry" and "S.H. Kress"; through its subsidiary, OTASCO, Inc. ("Otasco"), a chain of 266 automotive and home accessories company-owned stores and 392 franchised associate stores serviced by it, all operated under the trade name "OTASCO Stores" and engaged in the retail sale of automotive and home accessories; and through its Britts Department Stores division, a chain of eight "Britts" department stores. Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

At January 31, 1981, McCrory and its subsidiaries employed approximately 35,000 employees.

Apparel Specialty Stores (Lerner)

Lerner sells at moderate prices, substantially all articles of women's and children's apparel, except shoes. For the years ended January 31, 1981, 1980 and 1979, the merchandise categories set forth below accounted for approximately the following percentages of total store sales of Lerner:

	Year Ended January 31,		
	1981	1980	1979
Sportswear and sweaters	29.7%	28.9%	29.3%
Dresses	16.5	16.6	16.1
Blouses	13.8	14.7	15.1
Underwear and hosiery	11.6	9.4	8.5
Children's wear	9.6	10.2	11.5
Coats and suits	9.3	8.3	8.4
Skirts	4.4	4.9	5.0
All other merchandise	5.1	7.0	6.1

The following table sets forth, for the three years ended January 31, 1981, the number of stores opened, closed, and in operation at the end of each year and approximate average net sales per store.

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store*
1979	74	7	565	$1,316,000
1980	83	11	637	1,174,000
1981	89	9	717	1,009,000

* Excluding stores opened or closed during the year. The decline in the average sales per store is primarily due to the smaller size new stores which have been opened in the last few years and comparable store sales decreases.

The stores are located in 45 states, the District of Columbia, Puerto Rico and the Virgin Islands, with the greatest concentration of stores in California, Florida, New York and Texas. Lerner has actively followed the larger shopping center concept of retail distribution, where most of its stores which have been opened in the past 20 years are located. It is anticipated that approximately 50 stores will be opened in the year ending January 31, 1982.

The minimum sales area of any of the stores is approximately 1,700 square feet, the maximum sales area is approximately 27,300 square feet and the average sales area of all the stores is approximately 8,300 square feet; 333 stores have sales areas of under 8,300 square feet and 384 have sales areas in excess of 8,300 square feet. The stores to be opened will have an average sales area of approximately 6,000 square feet. Lerner maintains a continuous policy of modernizing its stores.

Eight Jenny Lane stores were opened during the two years ended January 31, 1981. These are experimental stores, smaller in size than the typical new Lerner store, different in design and with limited, edited merchandise assortments. Management regards this new concept as promising and will carefully evaluate it to determine its potential.

The home office and major distribution center are located in New York City, and regional distribution centers are located in Atlanta, Georgia; Jacksonville, Florida; Chicago, Illinois; Denver, Colorado; Pittsburgh, Pennsylvania; Los Angeles, California; and Dallas, Texas. Buying is directed centrally, with direct shipment of most merchandise from the vendor to the distribution centers. The greatest portion of the merchandise carried is purchased in New York City. Merchandise is also purchased through a buying office in Los Angeles. Sales promotion and advertising, directed centrally, are modified to meet local conditions. Each distribution center services and supervises the stores in its area.

Lerner does not generally enter into long-term purchase contracts nor does it manufacture the products it sells. No supplier accounts for more than 4% of Lerner's purchases.

Lerner participates in bank credit card programs and also offers twelve-month revolving charge accounts, with service charges at rates prevailing locally. At January 31, 1981, credit facilities were available in substantially all of the stores. Credit sales accounted for approximately 19% of net sales for the year ended January 31, 1981.

Lerner has an agreement with Citicorp Retail Services, Inc., pursuant to which it purchases and services Lerner's accounts receivable.

In common with many other retail businesses, the business of Lerner is seasonal, with sales and earnings concentrated primarily in the second half of the fiscal year ending on January 31.

Competition

Lerner is subject to active competition from other apparel merchandising chains and from so-called "discount" organizations selling

wearing apparel, as well as from department stores, specialty shops, mail order houses and other retailers. The primary competitive factors are fashion, price and product assortment. Management believes Lerner is the largest retailing chain in the United States specializing exclusively in women's and children's apparel.

Labor Relations

At January 31, 1981, Lerner had approximately 12,000 employees, some of whom were employed part-time. Temporary employees are added during certain holiday seasons and the peak is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 20 years. Collective bargaining contracts are in effect in 152 stores and six distribution centers covering approximately 3,100 employees in 15 states. Lerner has a non-contributory pension plan covering eligible employees.

Property

Lerner's policy is to lease, whenever practicable, rather than own its premises. At January 31, 1981, with the exception of three distribution centers, six store locations and parts of four others, each of which was owned, all premises were leased. Most of the store leases provide for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes and insurance. The home office, central buying office and distribution center, occupy approximately 395,000 square feet of office and warehouse space in New York City under leases expiring in 2004 renewable to 2024.

McCrory Stores

McCrory Stores sells a broad mix of merchandise, including men's, women's and children's apparel, jewelry, hardware, home furnishings, piece goods, stationery, toys, toilet articles and candy. Restaurants or luncheonettes are operated in 476 stores. McCrory Stores also operates six free-standing restaurants under the trade names "Wm. Tally House" in the eastern United States and "Holland House" in the western United States. In addition, McCrory Stores operates 10 fast food service restaurants under the trade name "Capt. Mac's". These restaurants and luncheonettes are an important part of McCrory Stores' business and over the years have been a significant contributor to operating results.

For the years ended January 31, 1981, 1980 and 1979 the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31,		
	1981	1980	1979
Apparel and accessories	29.5%	29.5%	28.7%
Hardware and home furnishings	13.6	13.1	12.8
Restaurants and luncheonettes	8.6	9.2	9.8
Stationery	7.6	7.5	7.6
Dry goods and domestics	7.5	7.5	7.9
Toiletries and beauty aids	6.8	6.3	5.9
Toys, games and books	6.0	5.9	5.7
Concessions	5.2	5.7	6.0
All other merchandise	15.2	15.3	15.6

The following table sets forth, for the three years ended January 31, 1981, the number of stores opened, closed, and in operation at the end of each year and approximate average net sales per store.

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store (1)
1979	8	32	732	$731,000
1980	17	34	715	803,000
1981	69 (2)	31	753	898,000

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(1) Excluding stores opened or closed during the year.
(2) Includes 46 S.H. Kress stores acquired by McCrory Stores on January 1, 1981.

McCrory Stores operates in 37 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally from three to 10 times larger. A majority of the stores are located in downtown shopping areas; 246 are located in suburban and mall shopping centers and greater emphasis is now being placed on suburban shopping centers in the opening of stores.

During the year ended January 31, 1981, seven McCrory prototype stores were opened, bringing the total to 16. These are smaller in size than the typical McCrory store, and do not generally contain food facilities. In addition, during the year ended January 31, 1981, 57 McCrory stores were remodeled and 17 were extensively rehabilitated.

The management of McCrory Stores has adopted a policy of eliminating unprofitable stores based upon lease expirations, locations and other relevant factors. It is anticipated that during the year ending January 31, 1982, six stores (including three J. J. Newberry stores) will be closed and 15 to 25 stores will be opened. Approximately 6% of the stores in operation at January 31, 1981 (excluding J. J. Newberry stores) operated at a loss during both of the last two fiscal years, before allocating corporate financing and neadquarters' administrative expenses and income taxes. On the same basis, approximately 17% of the J. J. Newberry stores operated at a loss during both of the last two fiscal years.

The minimum sales area of any store is approximately 1,800 square feet, the maximum sales area is approximately 71,600 square feet, and the average sales area of all stores is approximately 14,100 square feet; 264 stores have sales areas of under 10,000 square feet; 405 have sales areas from 10,000 to 24,999 square feet; 60 have sales areas from 25,000 to 40,000 square feet; and 24 have sales areas in excess of 40,000 square feet.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad grouping of apparel and variety. The main distribution and buying center for such merchandise is located in York, Pennsylvania, with a buying office for the west coast stores located in Los Angeles, California.

The main warehouse is maintained at York, Pennsylvania. In addition, relay stations are maintained at Albany, New York; Los Angeles, California; Stockertown, Pennsylvania; Glen Burnie, Maryland; Charlotte, North Carolina; Atlanta, Georgia; Orlando, Florida; Dallas, Texas; Columbus, Ohio; and York, Pennsylvania, to service the stores in their geographical area.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 5% of McCrory's purchases.

McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter, ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are selection, price, quality, service and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores and numerous other independent local stores. While management of McCrory Stores believes that the stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1981, McCrory Stores had approximately 19,500 employees, some of whom were employed part-time. During certain seasons as many as 3,000 temporary employees are added; the peak employment is reached during the Christmas season. There has been no substantial interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores has a non-contributory pension plan covering eligible employees.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance or both.

McCrory owns its main warehouse and distribution center in York, Pennsylvania, which comprises 795,000 square feet.

Automotive and Home Accessories Stores (OTASCO Stores)

OTASCO Stores sells automotive and home accessories in its company-owned stores in the south and southwest United States, and, in addition, supplies merchandise and merchandising aids to its franchised associate stores owned by third parties in the same geographical areas.

Though many products are carried in open displays, self-service operations are not a feature of OTASCO Stores' business. The stores sell over 9,600 items of merchandise, including tires, batteries, auto accessories and parts, home appliances, sporting goods, hardware, garden supplies, tools and housewares. For the years ended January 31, 1981, 1980 and 1979, sales of major home appliances accounted for approximately 30%, 29% and 29%, respectively, of OTASCO Stores' total sales. Most of the company-owned stores maintain service centers for the installation of replacement auto parts they sell.

The following table sets forth, for the three years ended January 31, 1981, the number of company-owned stores opened, closed and in operation at the end of each year and approximate average net sales per store.

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year end	Approximate average net sales per store *
1979	12	-	248	$629,000
1980	15	2	261	700,000
1981	7	2	266	713,000

* Excluding stores opened or closed during the year.

The locations of the company-owned stores are divided almost equally between downtown areas and urban and suburban shopping centers; the associate stores, with few exceptions, are located in smaller communities. OTASCO Stores is continuously engaged in modernizing older stores. In the opening of company-owned stores, greater emphasis is being placed on strip shopping center locations.

During the year ending January 31, 1982, it is anticipated that eight to 12 company-owned stores will be opened and arrangements will be entered into for approximately 15 associate stores.

During the year ended January 31, 1979, Otasco's newly organized subsidiary, Rapid Muffler, Inc., began a pilot program in Tulsa, Oklahoma, exclusively selling and installing car exhaust systems and shock absorbers.

At January 31, 1981, four stores were in operation, and three or four stores are planned to be opened during the year ending January 31, 1982.

Approximately 54% of total sales in company-owned stores are on credit. Sales on credit are customarily secured by conditional sales contracts. In addition, most company-owned and associate stores participate in bank credit card programs.

Otasco Credit Corporation ("Credit"), a wholly-owned subsidiary of Otasco, finances Otasco's receivables. Credit has a revolving credit agreement, which expires on December 31, 1981, with a regional group of banks in the aggregate principal amount of $60,000,000, secured by substantially all of Otasco's trade accounts receivable.

OTASCO Stores does not enter into any long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 10% of Otasco's purchases.

Competition

The business of OTASCO Stores is subject to active competition from mass merchandisers, tire company outlets, various department stores, major appliance stores, variety stores, home and auto stores and sporting goods stores. The primary competitive factors are price, location, selection and service. Management believes that OTASCO Stores is competitive with other stores in the geographical areas in which it operates.

Labor Relations

At January 31, 1981, OTASCO Stores had approximately 2,900 employees. During certain seasons temporary employees are added and the peak employment is approximately 3,400 during the Christmas season. Labor relations are considered to be good, except that the employees of the Tulsa warehouse were on strike from February 21, 1980 through March 5, 1980.

OTASCO Stores has a non-contributory profit-sharing retirement trust covering eligible employees.

Property

OTASCO Stores' executive office and warehouse, located in Tulsa, occupy a 500,000 square foot facility (which has been leased through 2003) situated on a 28-acre site which provides for future expansion. This facility includes approximately 61,000 square feet of offices. The office and warehouse in Little Rock, containing 129,400 square feet of floor space, including loading docks, are leased through 1990. OTASCO Stores' warehouse and offices in Atlanta occupy a building, which has been leased through 1989, containing 148,000 square feet of floor space, including loading docks. The office and warehouse which OTASCO Stores has leased through December 1982 in Meridian contain 166,400 square feet of floor space, including loading docks. Public

warehouse space is leased in major market areas for short periods as seasonal demands require.

All company-owned stores, except one, are in leased locations and in some instances are subject to more than one lease. Most of the leases do not contain clauses authorizing cancellation. Most of the downtown store leases are at fixed rentals, while most of the shopping center leases provide for additional rentals based on percentages of annual sales. A few leases require the tenant to pay property taxes or insurance, or both.

Britts Department Stores

At January 31, 1981, Britts operated eight junior department stores, five in Florida and one each in New Jersey, New York and Pennsylvania. Britts stores stress quality, style, fashion and customer service. Britts stores carry well-known brands of family apparel, accessories, jewelry, cosmetics and fragrances, in addition to assortments of housewares, domestics, gifts, sporting goods, furniture and appliances. Non-branded merchandise and name brand specials are used in support of its emphasis on promotion within each department.

All Britts stores are located in suburban and urban major shopping centers. The minimum sales area of any store is approximately 62,000 square feet, the maximum sales area is approximately 99,000 square feet and the average sales area is approximately 78,000 square feet.

During the year ended January 31, 1980, seven stores were closed. During the year ended January 31, 1981, six stores were closed. During February 1981, the store in Pennsylvania was closed.

During the years ended January 31, 1981, 1980 and 1979, the men's clothing departments accounted for approximately 19%, 17% and 19% of net sales, respectively, and the women's sportswear departments accounted for approximately 14% of net sales. Britts leases space in its stores to concessionaires pursuant to leases which provide for fixed minimum rentals plus additional rentals based on percentages of annual sales. Food service facilities are currently provided in four Britts stores.

Three Britts stores in operation at January 31, 1981 operated at a loss during both of the last two fiscal years, before allocating corporate financing and headquarters' administrative expenses and income taxes.

Britts generally does not enter into long-term purchase contracts and does not manufacture any of the products it sells. No supplier accounts for more than 5% of Britts' purchases.

Britts' business is seasonal, with sales and earnings concentrated primarily in the fourth fiscal quarter ending on January 31.

Britts provides its own credit facilities in all of its stores, and, in the year ended January 31, 1981, credit sales accounted for approximately 20% of sales. Britts also participates in bank credit card programs.

Competition

Britts stores are in competition not only with full-line department stores, but also with specialty, drug, appliance, variety and discount stores, both large and small, in their geographical areas. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. The principal methods of competition are advertising, promotion, price, quality, style and service. While the management of Britts believes that it is generally competitive as to these factors with other stores in the areas in which Britts operates, Britts has been experiencing increasing competition in recent years.

Labor Relations

At January 31, 1981, Britts employed approximately 950 employees, some of whom were employed part-time. During certain seasons, temporary employees are added, and the peak employment is during the Christmas season. In Britts' history there has been no substantial interruption or curtailment of operations due to labor controversies.

Britts has a non-contributory pension plan covering eligible employees.

Property

All Britts stores are operated under leases, most of which require the annual rentals to be based, in part, on percentages of annual sales. The lease expiration dates range from 1988 to 2003; except for one lease, all leases contain options to renew for an additional term or terms aggregating not less than 10 years. In all cases, the rent during any renewal term is either the same or less than the rent during the initial term.

Canadian Operation

Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, partially used for manufacturing operations. At January 31, 1981, Gault employed approximately 100 persons.

S. Klein

See Note 10 to Financial Statements.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits in the event of further increases in energy costs or possible shortages and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of certain McCrory operations, particularly Lerner.

ALCOHOLIC BEVERAGES

Schenley is engaged in the production, importation and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, beer, liqueurs, cordials and specialties. It is also engaged in various related activities such as the production and sale of cooperage and farm feeds, and the importation and sale of mineral waters, which in the aggregate are not significant in relation to its overall business.

In the year ended January 31, 1981, the five largest contributors to Schenley's operating income were Dewar's White Label Scotch whisky, Mateus wine and Old Charter, Ancient Age and I. W. Harper bourbon whiskies. Dewar's White Label Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to April 1983. The agreement relating to the distribution of Mateus wine expires in December 1985.

Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

Domestic Alcoholic Beverages--Brands of domestic whiskies owned by Schenley include Ancient Age, J. W. Dant, I. W. Harper and Old Charter bourbon whiskies and George Dickel Tennessee whisky. Schenley's principal brands of blended whiskies are Schenley Reserve and J. W. Dant. Schenley owns numerous brands of domestic gins (including Schenley and J. W. Dant), brandies (including Coronet and J. Bavet), vodkas (including Samovar, Schenley and J. W. Dant), DuBouchett Many Blanc cordials, prepared cocktails (including Cocktails for Two), and other domestic spirit beverages. Schenley owns the Dubonnet brand in the U.S. and owns and distributes Cruzan, Old St. Croix and Ron Carioca rums from the Virgin Islands. During fiscal 1980, Schenley became the exclusive U.S. distributor of Arroyo Sonoma and Potter Valley California wines.

Imported Alcoholic Beverages--Brands of imported beverages owned by Schenley or its foreign subsidiaries and affiliates include J. W. Dant and Park & Tilford Scotch whiskies; Grande Canadian, MacNaughton, OFC and J. W. Dant Canadian whiskies; Ole tequila; Fratelli Lambrusco and Siglo wines and

Cruz Garcia Real Sangria. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include Dewar's White Label and Dewar's 12 Scotch whiskies, Dewar's Malt Scotch whisky, Ne Plus Ultra Scotch whisky and Peter Dawson "Special" Scotch whisky; Power's Gold Label Irish whiskey; Plymouth gin; Mateus wine; the Stock line of vermouth, brandy and cordials; the Pedro Domecq line of sherries, brandies and wines; Asbach Uralt brandy; Glayva Scotch liqueur; Charles Heidsieck champagne; Lillet aperitif; Ackerman-Laurance, Joseph Drouhin, Fontanafredda, Hugel, La Cour Pavillon, Lamberti, Melini, and Delas Freres wines; and Oranjeboom Holland beer. The earliest expiration date of any agreement for distribution rights in the United States is June 30, 1981 and the latest expiration date is September 24, 2003.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States and Canada during the years ended January 31, 1981, 1980 and 1979. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are higher than on the sales of its other products. Approximately 46% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies and wines from Portugal.

	Year Ended January 31,		
	1981	1980	1979
Straight whiskies	22.8%	23.3%	25.4%
Wines	17.3	16.2	17.1
Scotch whiskies	15.5	17.2	15.0
Gins and vodkas	12.2	12.9	12.0
Canadian whiskies	11.8	11.2	10.7
Blended whiskies	3.0	3.1	3.4
Rums, brandies, cocktails, cordials, etc...	17.4	16.1	16.4

Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers. For several years prior to the 1980 fiscal year Schenley also distributed its products in certain markets through wholesale houses wholly-owned by it; it has now sold these wholesale houses, the last of them in fiscal 1980, and at the end of the fiscal year was selling directly to the retail trade in only one market, through a division of its principal sales subsidiary. In the year ended January 31, 1981, no wholesale distributor accounted for more than 4.7% and no state control board accounted for more than 3.2% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively, using various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines and

promotional material, and, in addition, radio and television for wines and beer. Advertising and promotional activities in the industry are, however, subject to close regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes six independent advertising agencies, and also places outdoor advertising through an agency owned by it. In the years ended January 31, 1981, 1980 and 1979 Schenley spent approximately $46,000,000, $41,000,000 and $37,000,000, respectively, for advertising.

Foreign Operations

Schenley has wholly-owned subsidiaries in Canada and owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "Property" below for the plants and properties owned by the Spanish affiliate. Schenley maintains sales personnel in six countries outside of the United States, including countries mentioned immediately above. Approximately 25%, 31% and 20%, of Schenley's consolidated net income in the years ended January 31, 1981, 1980 and 1979, respectively, represented earnings of Schenley's foreign subsidiaries.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in 11 foreign countries and overseas territories, who produce products under these trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 16 foreign countries, and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. The sales of Schenley to, and revenues derived from, these customers in foreign countries are not material.

Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak for barrels, flavoring and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley generally produces its own barrels, purchasing the rough staves and headings and other materials used in their production. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and governmental influences on production and marketing. Schenley purchases its requirements of bottles and other packaging materials from various manufacturers and distributors.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Twenty states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made in prices at the wholesale or retail level or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in Canada and other countries.

The Bureau of Alcohol, Tobacco and Firearms of the United States Treasury Department has been conducting investigations of a large number of companies in the industry, including Schenley, on a nationwide basis. The Schenley investigation began in March 1979, and there is no indication of when it will be completed or what action, if any, may be taken.

The products sold by Schenley are subject to Federal excise taxes on distilled spirits and wines as well as varying Federal Customs duties on imports. Under the provisions of the Trade Agreements Act of 1979, particularly Title VIII thereof, significant changes in the method of Federal taxation and plant operation have been made. The Bureau of Alcohol, Tobacco and Firearms of the United States Department of the Treasury has issued interim regulations, which became effective January 1, 1980. These interim regulations may be changed as the result of industry comments.

The Federal rectification tax at the rate of 30 cents a proof gallon, which applied only to domestically rectified products, was repealed as of January 1, 1980, leaving the rate of Federal excise tax on all distilled spirits since that date at $10.50 a proof gallon. Distilled spirits are

subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from $1.50 to $4.75 a wine gallon.

Imported distilled spirits and wines are also subject to Customs duties at varying rates. Prior to January 1, 1980, the duties, as well as applicable excise taxes, were calculated on a wine-gallon basis for distilled spirits imported in bottles, and on a proof gallon basis when imported in bulk containers. Since January 1, 1980, pursuant to the Trade Agreements Act, all excise taxes and duties have been calculated on a proof gallon basis, regardless of the type of packaging.

The principal Customs duties applicable to products imported by Schenley are as follows: a duty of 47 cents per proof gallon is assessed on bottled or bulk Scotch and Irish whiskies, and on gin from the United Kingdom and Germany; on Canadian whisky the rate of duty is 57 cents per proof gallon, whether bottled or in bulk. The rate of duty on brandies varies in the case of bottled goods on the value of the product per gallon and is calculated at a lower rate on bulk brandy than on the bottled product. Rates of duty on whisky and brandy will be reduced in annual stages through 1987.

Other changes made by the Trade Agreements Act provide that the time within which the tax on distilled spirits shall be paid will be extended in annual stages of 5 days each from the original period of 15 days to 30 days. There was a twenty-day period for payment in 1980, there is a twenty-five day period in 1981 and there will be a thirty-day period in 1982 and subsequent years.

The entire structure of the law with respect to the establishment and operation of distilled spirits plants has been changed sc as to provide for what is described as an "All-in-Bond" system. Under such system the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions. The interim regulations provide for greater responsibility on the part of plant proprietors. There is now a lesser amount of direct governmental supervision, with respect to operations, plant security and related matters. However, the government will institute a post-audit system for verifying proprietors' compliance with the law and regulations.

While the foregoing changes enacted in the Trade Agreements Act of 1979 are generally favorable to Schenley's business, it is believed that their effect will not be material.

Since March 29, 1971, Schenley had been subject to an antitrust consent decree pursuant to which it was prohibited for ten years, without Department of Justice or court approval, from acquiring from any other company any rights to import and sell or produce and sell any brand of Scotch whisky other than a brand of Scotch whisky produced by or for John Dewar & Sons, Limited and from acquiring any stock, assets or other financial interest in any company which holds or controls the right to produce and sell or import and sell any brand of Scotch whisky in the United States. That prohibition terminated on March 28, 1981.

Employees

At January 31, 1981 Schenley employed approximately 3,500 people in the United States and Canada and approximately 450 people in other countries.

Schenley has contracts covering wages, hours of employment, working conditions and related matters with a number of labor unions, expiring at various dates to February 29, 1984, covering substantially all of the hourly-rated and certain of the salaried employees in the United States and Canada. Schenley maintains non-contributory pension plans and other benefit plans, contributory and non-contributory, for its employees, and contributes to union pension and welfare plans.

In general, labor relations have been satisfactory and there have been no strikes in recent years that had a material effect on Schenley's overall business.

Property

Schenley operates nine plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 182,000 proof gallons of whiskey or distilled spirits; facilities for bottling under normal conditions an aggregate of approximately 75,000 standard cases of product in an eight-hour day; and storage facilities for a total of approximately 3,000,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns three inactive plants.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Frankfort and Louisville, Kentucky; Schenley, Pennsylvania; Tullahoma, Tennessee; and Fresno, California. In Canada, Schenley subsidiaries own distilleries at Valleyfield, Quebec and North Vancouver, British Columbia. A cooperage plant is located at Louisville, Kentucky. Schenley has a plant for the distillation of rum in the United States Virgin Islands.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state and local pollution control regulations. Schenley is presently in full compliance with such regulations at all its plants in the continental United States and has not received any indication to the contrary from governmental authorities. No major capital expenditures for pollution control compliance are anticipated for these plants for the forseeable future. Subject to the effect of inflationary pressures on costs, the operating expenditures for such polution control facilities are within reasonable limits and not material.

A subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRIL"), owns and operates a rum distillery in the United States Virgin Islands, and substantial capital expenditures would have been required to conform this facility with requirements stated in the discharge permit ("EPA permit") issued by the Environmental Protection Agency ("EPA"). Schenley requested adjudicatory hearings before the EPA in respect of these requirements, which were held commencing in July 1977, but were not then concluded, and were subsequently indefinitely postponed in view of discussions with EPA and with Virgin Islands authorities, including the Government's Department of Conservation and Cultural Affairs ("DCCA"). DCCA has authority to issue a new discharge permit.

VIRIL, EPA and DCCA have negotiated a proposed stipulation of settlement which would provide that compliance with the terms and conditions of the EPA permit, which were the subject of the recessed adjudicatory hearings before EPA, shall remain stayed and not in force.

The stipulation provides that DCCA shall issue a new discharge permit to VIRIL ("DCCA permit") pursuant to an application which VIRIL has filed. DCCA has submitted to VIRIL a draft permit containing terms and conditions in accordance with the provisions of the stipulation, which are therein stated to be acceptable to DCCA, EPA and VIRIL and with which VIRIL can comply more readily than with the conditions in the EPA permit. The time for issuance of this permit by DCCA can not now be stated. A schedule of compliance for the period September 17, 1979 through April 1, 1983 is set forth in the stipulation with provisions for adjustment by reason of acts of God or unforeseen accidents beyond the control of VIRIL. Under such schedule, construction of a treatment system for the rum distillery wastes is to commence November 1, 1981, is to be completed December 1, 1982 and the system is to be in full operation by April 1, 1983. The DCCA permit will be for a period ending March 31, 1985, subject to the enactment of an amendment to the Virgin Islands Code to provide for a permit of such term. The stipulation has not yet been executed because certain technical changes in it are required. DCCA has consented to an extension of time for such execution through June 30, 1981. If a stipulation of settlement is not executed by VIRIL, further administrative proceedings or litigation is possible.

EPA and DCCA have each given written assurance that even in the absence of the issuance of a formal discharge permit VIRIL may continue its operation as presently conducted. Neither EPA nor DCCA has asserted any claim for civil or criminal penalties against VIRIL for alleged violations of the Clean Water Act and both have given their assurances that so long as progress is being made toward execution of the stipulation of settlement, they will not seek penalties for any discharges made by VIRIL up to and including the time that the DCCA permit is issued.

In a related development, VIRIL agreed to construct and operate the pollution control facilities mentioned above as well as construction of a second molasses storage tank in return for contractual assurances that certain favorable economic arrangements between VIRIL and the Virgin Islands Government (regarding the price VIRIL pays for molasses and certain tax exemptions and subsidies) would be maintained for a period of time long enough for VIRIL to recover its investment costs for the foregoing, presently estimated to cost approximately $3,400,000. During 1980, the Thirteenth

Legislature of the Virgin Islands of the United States passed a bill authorizing the Governor of the Virgin Islands to enter into an agreement with VIRIL relating to the guarantee of the payment of the molasses price subsidy. Upon signature by the Governor that bill became Act No. 4450 and provided, among other things, that after execution of the agreement, but before its delivery, the agreement had to be approved by the Legislature. The agreement was executed on December 3, 1980. The Legislature approved the agreement on December 16, 1980 under Resolution No. 1024 and the agreement was then delivered. VIRIL has taken initial steps in the design and construction of a treatment plant for the molasses wastes. VIRIL's tax exemptions have been approved by the Industrial Development Commission of the Virgin Islands, and a formal certificate has been issued.

INDUSTRIAL GROUP

McGregor

Through McGregor, Rapid's Industrial Group manufactures (a) men's clothing, in several price ranges, including popular priced and medium priced suits and sport coats sold by the Botany '500' and Cross Country Divisions, under private labels and under the trademarks "Botany", "Botany '500' ", "Cartier", "Worsted-Tex", "Fashion Park", "Stein Bloch", "Broadstreet's" and "Coat Tails"; (b) men's, women's and boys' shirts, sport shirts, screen-print shirts and ties sold by the Wonderknit, Beau Brummell, Bert Pulitzer and Botany Shirt Divisions under such trademarks as "Wonderknit", "Ramrod", "New Era", "Botany", "Botany '500'", "500", "Slazenger", "Anvil", "Ched", "Manfredo", "Ruggers", "St. Andrews", "The Livingston Tennessee Shirt Company", "Beau Brummell", "Saddle Club", "Paco Rabanne", "Bronzini" and "Bert Pulitzer"; (c) ladies' lingerie, sleep wear and undergarments sold by the Gilead Division under the "Gilead" and "Gillies" trademarks; and (d) men's sportswear sold by the McGregor Sportswear Division under the trademark "McGregor", and such other trademarks as "Drizzler" and "Bernhard Altmann".

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales organizations. McGregor advertises in national and trade magazines and newspapers, and through printed material used in retail outlets. Botany '500' and McGregor Sportswear division advertise on television and radio and in consumer newspapers and national magazines. McGregor uses cooperative advertising for its trademarked goods.

Trademarks are an important selling aid for the industrial group. The trademarks "Botany", "Botany 500", "McGregor", "Bert Pulitzer" and a number of others are registered in the United States and in many foreign countries. McGregor has an established licensing program, under which it licenses the right to use "McGregor" and other trademarks to foreign manufacturers, who produce sportswear and other merchandise under these trademarks for sale in their own and other authorized countries. Under this program, McGregor also furnishes designs, patterns, engineering and other manufacturing and promotional services to its foreign licensees. McGregor also licenses its

"McGregor" and other trademarks to domestic manufacturers for men's shirts and slacks, children's outerwear, boys' wear and men's and boys' ties and scarves. McGregor has domestic licensing agreements pursuant to which it licenses, on a royalty basis, the production and sale by others under the Botany trademarks of men's and boys' hats and caps, neckwear, scarves, belts, handkerchiefs, pajamas and robes, men's shirts, raincoats and outdoor coats, small leather accessories, hosiery and other products. It also has licensing agreements with manufacturers in many foreign countries pursuant to which it licenses, on a royalty basis, the production and sale of men's tailored clothing, sportwear for men, women and children and other apparel products under the Botany trademarks.

Raw Materials

Certain operations of McGregor use both knit and woven cloth in the manufacture of apparel. Wonderknit has one knitting mill where many of the various types of knitted cloth required in its garment manufacturing operations are fabricated in their entirety from yarn to finished product. Wonderknit's knitwear operation purchases its yarn requirements from domestic sources and knits and finishes approximately 95% of its cloth requirements. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers. Certain of these operations also import finished garments, primarily from the Far East, for sale to retailers.

McGregor's menswear divisions obtain the greatest portion of their clothing fabric (100% wool worsted, 100% wool, wool and synthetic fibre blend, and all synthetic fibre fabrics) from domestic suppliers. No supplier accounted for more than 5% of material purchased by McGregor.

Employees

At January 31, 1981, McGregor employed approximately 6,100 persons. Approximately 44% of the production employees, together with certain other employees, are covered by collective bargaining agreements and several divisions and subsidiaries maintain pension, profit-sharing and other benefit plans for their employees and contribute to union pension and welfare plans. Labor relations have been harmonious and there have been no major work stoppages in recent years, other than an industry-wide men's clothing workers strike in 1974.

Competition

McGregor faces strong competition with respect to all of the consumer products which it manufactures and sells. The principal methods of competition include price, product quality and performance, ability to meet shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of special promotional programs to deal with particular requirements, opportunities or market segments. In the opinion of management of McGregor, its subsidiaries and divisions are generally competitive with respect to these factors.

Management believes, on the basis of available information, that McGregor is one of the largest manufacturers of men's tailored clothing not directly affiliated with any men's clothing retailer.

Property

McGregor operates 17 manufacturing facilities in the United States of which six, containing approximately 820,000 square feet of space, are owned, and 11, containing approximately 880,000 square feet of space, are leased. McGregor also operates a number of sales offices and distribution centers. Management believes that McGregor's manufacturing facilities and equipment are capable of meeting operating requirements in peak periods.

Melville

Melville is engaged in the manufacture and distribution at wholesale of women's and misses' sportswear (principally knitted tops) designed to retail in the moderate to low price range.

Raw Materials

Melville purchases yarn which it knits, dyes and sews into finished garments at its facilities in New York and North Carolina. Approximately 50% of the products sold are manufactured in foreign countries, principally Hong Kong, Taiwan and South Korea. In view of the foregoing, the regulations concerning import quotas on such products and any new regulations such as increased tariffs and duties could have an adverse effect on Melville.

Sales and Distribution

Melville sells principally to department stores, retail specialty shops and mail order organizations. Since its products are primarily associated with the colder months, Melville's sales are seasonal; the months of May through October are the stronger months as retailers make purchases in advance of the fall. Sales are made by four employees and eight commissioned sales representatives. The products are not sold under any trademark. Although Melville sells to a large number of customers, it is dependent on a few of them for a substantial portion of its sales. During each of the past three fiscal years, five to seven of Melville's largest customers (including Lerner) accounted for more than 64% and for as much as 82% of its sales. In the opinion of management, Melville's relationship with its principal customers is good. However, the loss of any one of such customers could have an adverse effect on Melville's operations.

Employees

Since Melville's business is seasonal, the number of employees will vary, with an average of approximately 280 people being employed during the year. None of Melville's employees is covered by collective bargaining agreements.

Competition

The women's apparel business is very competitive and no single firm accounts for more than a small percentage of total industry sales. Melville is not a significant factor in the industry.

Property

Melville owns manufacturing facilities in North Carolina and New York. Its principal plant is situated on approximately 15 acres of land in Waxhaw, North Carolina. The plant consists of a one-story concrete block building containing approximately 75,000 square feet of floor space; it is also used as a distribution center. Another building of approximately 50,000 square feet on the Waxhaw site is also utilized for warehousing and distribution. Additional manufacturing, warehousing and distribution activities are conducted in Monroe, North Carolina where Melville owns a one-story brick building containing approximately 97,000 square feet and located on an area of approximately five acres. Approximately 30,000 square feet of the Monroe building is leased to an unaffiliated tenant. Manufacturing operations are also carried on in two buildings owned by Melville with an aggregate of approximately 40,000 square feet in Port Jervis, New York. Melville's principal office is located in Lynbrook, New York where it leases approximately 3,000 square feet, and it maintains showroom space in New York City.

Plastic Toy

Plastic Toy manufactures and distributes a variety of plastic toys and novelty items, principally for children six months to eight years old. Sales by Plastic Toy are principally made to wholesalers and jobbers, retail discount chains, mass marketing concerns and retail toy stores.

Raw Materials

The principal raw materials used by Plastic Toy in the manufacture of finished products are high density polyethylene plastic pellets, commonly called "powder". Plastic Toy purchases the powder, the principal portion of which is shipped directly, and sold by Plastic Toy, to contract molders who mold the toy parts using molds designed and owned by Plastic Toy. The molded parts are then sold and shipped to Plastic Toy which then finishes, decorates, assembles, packages, stores and ships the finished product to its customers. There are many suppliers of powder and many molders of plastic products.

Sales and Distribution

Plastic Toy's business is seasonal, a large portion of its sales are for sand toys shipped in late winter and early spring. Other products are sold in the fall for Christmas.

No patents, licenses, franchises or concessions are owned by Plastic Toy in connection with toy operations. Many of its products are sold under the registered trademark "PT&N".

During the fiscal year ended January 31, 1981, the largest customer of Plastic Toy accounted for approximately 18% of its total sales. Management believes that the loss of this customer would have an adverse effect on the business of Plastic Toy. No other customer accounted for more than five percent of total sales.

Employees

Approximately 120 people are employed on a full time basis by Plastic Toy, of which approximately 100 people are covered by a union contract which expires on December 31, 1981. Additional employees are added during periods of peak production. In general, labor relations have been satisfactory and there have been no strikes in recent years.

Competition

The toy business is highly competitive. Plastic Toy's sales do not account for a significant portion of the total volume of wholesale toy sales in the United States.

Property

Plastic Toy's manufacturing, warehousing and office operations are centralized in a leased facility aggregating approximately 100,000 square feet, located in New York City.

SHENANDOAH

Shenandoah conducts thoroughbred horse racing with facilities for pari-mutuel wagering at Charles Town Race Course and Shenandoah Downs Race Track (the "Tracks") in Charles Town, West Virginia, as well as other business activities incidental to such racing.

Revenues

The Track's revenues are derived from wagering activities and from non-wagering sources such as admissions, parking, food concessions and the sale of programs. The Tracks' revenues from wagering are dependent upon (i) the total amount wagered and (ii) the percentage of the pari-mutuel pool which the Tracks are entitled to retain, which is determined by the West Virginia Legislature. Among the factors which influence the aggregate amount wagered is the number of racing dates permitted and attendance at the Tracks.

No material part of the racing operations is dependent upon a single customer or very few customers.

Competition

Racing operations are affected by the competition of other thoroughbred and harness race tracks in Maryland and Pennsylvania. At the present time there are no race tracks in Virginia. The establishment of a race track in Virginia proximate to the Tracks or in their drawing area could have a significant adverse competitive effect on the business of the Tracks. In addition to the foregoing, the volume of business of the Tracks is affected by a variety of other factors, such as the racing dates granted, the weather conditions during race meetings and general business conditions.

Regulations

The racing activities of Shenandoah are regulated by the West Virginia Racing Commission (the "Commission"). Among the responsibilities of the Commission is the determination of the dates on which Shenandoah may conduct race meetings and the licensing of employees at the Tracks. Shenandoah must apply annually to the Commission for a license to conduct horse race meetings during the following year, and the Commission, in granting the license, specifies the dates on which races may be conducted, subject to variation at Shenandoah's request with the consent of the Commission. Recent legislation in West Virginia grants to the counties of the State the option to permit racing on Sundays. A referendum to permit Sunday racing in Jefferson County passed in May 1979 and since that date Shenandoah has conducted Sunday racing. Shenandoah anticipates that during 1981, racing will be conducted on 227 dates, and it is expected that all racing dates will be held at the Charles Town Race Course.

Employees

Approximately 50 persons are employed on a full time basis by the Tracks and during the time that racing is conducted, approximately 400 persons are employed. Approximately 150 of these employees are represented by a union, under a contract which expires on December 31, 1982. In general, labor relations have been satisfactory and there have been no strikes in recent years.

Property

Charles Town Race Course is situated on approximately 200 acres of land. Shenandoah owns the land and the structures on the land, subject to a mortgage. The racing plant of Charles Town Race Course consists of a three-quarter mile track with a grandstand and a clubhouse, both of which have betting mezzanines. The grandstand, which is glass enclosed and heated, seats approximately 3,400 persons and the clubhouse, the principal portion of which is glass enclosed, heated and air-conditioned, seats approximately 2,000

persons, including about 1,500 patrons in a restaurant from which spectators can watch the races while dining. Approximately 9,000 persons can be accommodated on the ramp located in front of the clubhouse and grandstand. Facilities include stables, tack rooms, paddocks, jockeys' quarters and recreation facilities, veterinarian and first aid facilities, a horsemen's restaurant and a building containing sanitary facilities for the stable area employees. The parking facilities accommodate approximately 4,500 automobiles.

Shenandoah Downs is situated on approximately 155 acres owned by Shenandoah adjacent to Charles Town Race Course. The five-eighths mile track at Shenandoah Downs is currently utilized as a training facility. The grandstand and clubhouse can seat an aggregate of 4,800 people and a ramp in front of the grandstand and clubhouse can accommodate approximately 9,000 persons. As at Charles Town Race Course, there are complete facilities for the horsemen and parking areas. The stable areas at the Tracks can accommodate a total of approximately 1,500 horses.

IHC

IHC presently renders management consulting services to three special purpose medical centers which provide artificial kidney treatment on an out-patient basis. Treatments at these centers are performed by teams of licensed nurses and trained technicians under the supervision of physicians who are either present or on call for each shift.

IHC employs approximately 30 employees.

IHC provides each center with a broad range of services which vary from facility to facility, including supervision of construction, design advice, assistance in obtaining requisite licenses and in complying with appropriate regulations, standardized accounting and reporting forms and procedures, and administration of billing and third-party or governmental reimbursement.

The fees paid to IHC for its consulting services vary. In one case, it is a fee per dialysis, and for two facilities the fee is substantially all of the revenues generated by the units less the expenses thereof. The New York State Department of Health has advised IHC that the agreement relating to one of its New York facilities may violate the laws of the State of New York, and has requested IHC to substantially modify its agreement with the facility, including the provisions dealing with IHC's fees. IHC has entered into discussions with the New York State Department of Health regarding such requested modifications.

Substantially all of the fees for dialysis services are funded under the End-Stage Renal Disease Program of Medicare as administered by the United States Department of Health and Human Services. The balance of the fees are paid by the patients directly, through private insurance coverage or other federal or state funding programs.

The renal facilities are subject to comprehensive federal, state and local governmental regulation, inspection, licensing and approval. It is expected that governmental regulation of medical care facilities and operations will become more wide-spread and comprehensive in the future.

Changes in applicable statutes, ordinances, rules and regulations could require changes in the renal facilities, equipment, modes of operations, personnel, services and rates, which might have an adverse effect on IHC's operations and earnings.

ILC INDUSTRIES, INC.

Rapid owns approximately 74% of the common stock of ILC Industries, Inc. ("ILC"). ILC is engaged through its wholly-owned subsidiary, ILC Data Device Corporation, in the research, development, manufacture and sale of advanced electronic data converters and through its division, ILC Dover, in the development, manufacture and sale of protective devices, including space suits, to isolate man from hostile environments. ILC is also engaged through its division ILC Services in the leasing of motor vehicles and other personal property to affiliates. The carrying value of Rapid's investment in ILC, including loans and advances and equity in undistributed earnings, aggregated approximately $10,000,000 at January 31, 1981. ILC reported net income of $1,984,000 for the year ended December 31, 1980. Under ILC's bank agreement, ILC is authorized in any calendar year to reacquire shares of any class of its capital stock, pay cash dividends or reduce its indebtedness to Rapid provided the total expenditure for such transactions does not exceed an amount equal to 50% of the immediately prior year's net income.

Item 2. Properties.

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 1995) for executive and administrative offices of Rapid and certain of its subsidiaries. Approximately 145,000 square feet of space at 888 Seventh Avenue has been subleased to others. Rapid has leased for 25 years approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York at an annual rental of approximately $1,800,000, plus additional amounts based upon increases in taxes and operating expenses; this space has been subleased to others. In October 1975, when Rapid determined that it would not occupy the premises at 645 Fifth Avenue, a reserve of $3,500,000 was established for the estimated loss to be incurred relating to such lease. At January 31, 1981, the reserve balance was approximately $1,400,000. McCrory leases approximately 139,400 square feet of space at 360 Park Avenue South, New York, New York, pursuant to a lease expiring in 1990, at an aggregate annual rental of approximately $450,000, plus additional amounts based upon increases in taxes and operating expenses. During 1975, McCrory subleased this space to the City of New York for a seven year term renewable through 1990.

Reference is made to Item 1 for information concerning other physical properties of Rapid and its subsidiaries.

Item 3. Legal Proceedings.

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been

brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their officers and directors. Several of these lawsuits have been brought by persons alleging that they are owners of common stock, or other securities, of the particular corporation, that the suit is brought in behalf of that corporation and/or its security holders, and that one or more of the transactions have been unfair, fraudulent, or otherwise improper. The terms of the respective certificates of incorporation and by-laws of each of the corporate defendants require or permit, in accordance with the laws of the respective jurisdictions of incorporation, indemnification of officers and directors under certain circumstances. All references herein to Rapid include Old Rapid and Kenton, unless the context otherwise requires, and all references herein to Kenton are to such corporation as it existed prior to the Merger (see "Introductory Note" above).

There are presently pending a number of actions brought derivatively on behalf of Rapid or McCrory and which seek recoveries against certain officers and directors of Rapid for the benefit of Rapid or McCrory based upon allegations of fraud or other wrongdoing by those officers and/or directors. Rapid will attempt to obtain the dismissal of all such actions on the grounds that (i) following the Merger, plaintiffs in those actions are no longer stockholders, directly or indirectly, of the company on behalf of which those actions are brought and therefore lack standing to pursue derivative suits on behalf of such company, (ii) the existence of such actions was taken into account in determining the fair consideration to be given to the public stockholders of Rapid in connection with the Merger, and (iii) all stockholders of Rapid after the Merger have waived for themselves and Rapid any recovery that might have been obtainable in those actions.

The actions which Rapid will attempt to have dismissed include the actions described below under "Litigation Relating to Compensation and Other Matters" and "Litigation Relating to the Disposition of the Retail Division of Anvil" and certain dormant derivative actions.

Securities and Exchange Commission

On August 16, 1979, Rapid, McCrory and Meshulam Riklis, the Chairman of the Board, Chief Executive Officer and President of Rapid consented to the entry of judgments against them, without admitting or denying the allegations of a complaint filed against them on that day by the Securities and Exchange Commission in the United States District Court for the District of Columbia.

The complaint in the action contained allegations concerning a pattern of transactions whereby Rapid and McCrory paid fees and entered into agreements with personal creditors of and persons who entered into business relationships with Mr. Riklis. It was alleged that the transactions in question were either negotiated or approved by Mr. Riklis at a time when he was the Chairman of the Board and Chief Executive Officer of Rapid and Vice Chairman of the Board of McCrory. The complaint alleged that in certain of the transactions, Rapid or McCrory, at the direction of Mr. Riklis, paid finder's fees or entered into consulting agreements with personal creditors of

Mr. Riklis, and that neither the substance of the transactions nor Mr. Riklis' conflict of interest in causing the transactions to be consummated was disclosed to the Board of Directors of Rapid or McCrory. In another transaction it was alleged that Mr. Riklis caused McCrory to amend an employment agreement with a senior executive of McCrory in order to allow the senior executive to immediately receive accrued compensation, to which he was not then entitled, which money was then immediately loaned to Mr. Riklis, and that the Board of Directors of McCrory, who later approved the amendment, was not informed that the proceeds resulting from the amendment were used to make a loan to Mr. Riklis. In other transactions it was alleged that Mr. Riklis negotiated, directly or indirectly, or approved employment agreements on behalf of Rapid and McCrory with senior executives of those companies who were or became his personal creditors or who had entered into personal business relationships with him, and that Mr. Riklis did not disclose to the Boards of Directors of Rapid and McCrory his debtor-creditor or other personal business relationships with the executives in question and his resulting conflict of interest. Kenton was also a party to the proceedings, and the allegations concerning Kenton related to the purchase by Kenton of approximately 1,100,000 shares of Rapid Common Stock from Mr. Riklis in order, among other reasons, allegedly to allow Mr. Riklis to amortize his personal loans while at the same time retaining his control of Rapid through his substantial influence over the business and affairs of Kenton. In addition, it was alleged that Mr. Riklis caused Kenton, as he did Rapid and McCrory, to enter into transactions with persons who were or became, soon after the transactions were consummated, his personal creditors.

At the time of the filing of the complaint and the related judgments, Rapid, McCrory and Mr. Riklis filed undertakings with the Court requiring them to carry out certain obligations, including the creation of a Transaction Review Committee of the Board of Directors of Rapid. Pursuant to Rapid's undertaking, disclosure to the new Transaction Review Committee of the Board of Directors of Rapid would be required of personal transactions between officers or directors of Rapid or any of its subsidiaries and third parties prior to Rapid's or any of its subsidiaries' entering into transactions with such parties. In addition, approval by the Transaction Review Committee would be required prior to the consummation of any transaction between such third parties and Rapid or its subsidiaries. In accordance with Rapid's undertaking, effective on August 16, 1979, Rapid's Board of Directors was expanded from 12 to 16 members and the four new members of the Board of Directors were elected to the Transaction Review Committee. Prior to their election as directors, none of the new directors had any business relationship with Rapid or with any existing director or officer of Rapid. The qualifications of the new directors were submitted to the staff of the Securities and Exchange Commission.

On February 15, 1979, Rapid and Schenley entered into consent decrees with the Securities and Exchange Commission in connection with an action filed by the Commission in the United States District Court for the Southern District of New York on February 15, 1979. Injunctions entered against Rapid and Schenley, respectively, and the related consents and undertakings given by Rapid and Schenley, among other things, enjoined violations of certain provisions of the federal securities laws, required certain filings to be made with the Commission, and required that Schenley undergo an investigation. The action concerned certain business practices, mainly relating to depletion

allowances, which Schenley believes were common in the liquor industry and which have been discontinued in all respects since early 1976. In October 1977, Schenley's Board of Directors initiated a voluntary investigation of prior business practices. Pursuant to the consent decree, Schenley agreed to appoint independent counsel to continue the investigation concerning other payments and practices. Such counsel had previously conducted Schenley's voluntary investigation. On August 24, 1979, the independent counsel's report was filed with the Court and the Securities and Exchange Commission. Insofar as the management of Schenley is concerned, the report concluded that ".... the senior management of Schenley was either unaware of most of the questionable or illegal practices which we have reported upon, or when they became aware of them, took timely action to have such practices stopped." The report contains certain recommendations regarding actions that Schenley should take to insure its continued compliance with applicable federal and state laws governing the liquor industry. No fraud charges were made against Rapid and no allegations were made that it participated in any of the business practices which were the subject of the action.

Litigation Relating to Compensation and Other Matters

A challenge to the compensation and perquisites of employment of certain of Rapid's officers and directors was made in stockholders' derivative actions instituted in the state courts of Delaware and New York. On January 23, 1978, the Delaware Court of Chancery entered an order and judgment approving as fair, adequate, reasonable and proper, a settlement agreement, in which plaintiffs in all related actions joined, which order and judgment became final during March 1978. The settlement agreement provided for Messrs. Riklis, Becker and Lane to waive certain contractual rights and for the discharge of all individual defendants, including those persons, from any liability relating to the compensation paid and perquisites of employment given to such defendants prior to December 13, 1977, the date of the settlement agreement. In addition, pursuant to the settlement agreement Messrs. Riklis, Becker and Lane became obligated to pay Rapid $50,000, $125,000 and $25,000, respectively, in five equal annual installments, without interest, commencing March 31, 1979. The first three installments have been paid.

In July 1979, an action was instituted in the Supreme Court of the State of New York, County of New York, by William B. Weinberger, allegedly derivatively on behalf of Rapid. The following directors of Rapid are named as defendants in the action: Meshulam Riklis, Isidore A. Becker, Harold S. Divine, Leonard C. Lane and Mona R. Ackerman. In addition, certain former directors of Rapid are named as defendants.

The complaint alleges that Mr. Riklis dominates and controls Rapid and its subsidiaries and has selected and caused to be elected all of the members of the Board of Directors of Rapid and that Mr. Riklis and the remaining individual defendants have caused Rapid and Schenley to pay compensation and deferred compensation to Messrs. Riklis and Becker in amounts which are grossly excessive, and which bear no relationship to the value of the services rendered to Rapid and Schenley by Messrs. Riklis and Becker. In addition, the complaint alleges that Messrs. Riklis and Becker devote a substantial portion, if not most, of their time to affairs other than the affairs of Rapid and its

subsidiaries. It is alleged that Messrs. Riklis and Becker both receive substantial remuneration from AITS, Inc., and its subsidiary, Hotel Riviera, Inc. The complaint further alleges that Messrs. Riklis and Becker and the other individual defendants were grossly negligent in the discharge of their duties and committed gross mismanagement of Rapid in violation of their fiduciary duties as directors by, among other things, causing Rapid and Schenley to enter into excessive compensation arrangements with Messrs. Riklis and Becker. By reason of such actions, Messrs. Riklis and Becker and the other individual defendants have failed to exercise reasonable and ordinary care, skill and diligence in conducting the business of Rapid and have wasted the assets of Rapid.

In August 1979, the complaint was amended to add Arie Genger (a director of Rapid), McCrory and certain other individual defendants, and to add allegations relating to the transactions which are set forth in the complaint filed by the Securities and Exchange Commission (see above for a description of the Securities and Exchange Commission's complaint).

The amended complaint seeks to enjoin any further performance by Rapid, McCrory and Schenley of the agreements described therein, including the employment arrangements with Messrs. Riklis and Becker, and seeks to require the individual defendants to account for all damages sustained by Rapid, McCrory and Schenley and for all benefits received by them. In addition, the amended complaint seeks costs and disbursements of the action, including counsel and accountants' fees.

In September 1979, an action was instituted in the United States District Court for the Southern District of New York by Bernard Pogostin, allegedly derivatively on behalf of Rapid and McCrory. The following directors of Rapid are named as defendants in the action: Isidore A. Becker, Harold S. Divine, Arie Genger, Seymour Kleinman, Leonard C. Lane, Dan Palmon, Meshulam Riklis, Leo Stone, Helen Updike and Mona Ackerman. The complaint also names certain former directors of Rapid and all but one of McCrory's directors.

The complaint contains allegations relating to the transactions which are set forth in the complaint filed by the Securities and Exchange Commission (see above for a description of the Securities and Exchange Commission's complaint).

The complaint seeks to require the individual defendants to account to Rapid and McCrory for all profits made by them and for the damages sustained by Rapid and McCrory.

Action by Unishops

In February 1974, an action was instituted in the Supreme Court of the State of New York, County of New York, by Unishops, Inc., and several of its wholly-owned subsidiaries, against Newberry, McCrory, Rapid, and former McCrory and Newberry executives. The complaint alleges, in essence, that to permit Newberry to sell three stores, plaintiffs cancelled license agreements, pursuant to which they operated men's and boys' wear departments in those stores, in reliance upon Newberry's agreement that those agreements would be replaced by new license agreements for four new locations. Plaintiffs charge

that the amount of business done at two of the new locations has been materially less than represented by Newberry and that defendants have refused to enter into the other two promised agreements. McCrory and Rapid are alleged to be liable to plaintiffs by virtue of their ownership and control of Newberry and because they allegedly cooperated in Newberry's acts. Plaintiffs seek aggregate damages of $7,500,000 plus costs.

Litigation Related to the Disposition of the Retail Division of Anvil

In August 1976, an action was commenced in the Supreme Court of the State of New York, County of New York, by William B. Weinberger, allegedly a stockholder of Rapid, derivatively on behalf of Rapid. Named as defendants are Rapid, certain of its directors and officers, including Meshulam Riklis, Isidore A. Becker, Harold S. Divine, Leonard C. Lane, certain former Rapid directors, and Natco Industries, Inc. ("Natco"), and Morton L. Olshan. The complaint alleges, in essence, that: (a) in 1972, Rapid owned The B.V.D. Company, Inc. (now Anvil Brand, Incorporated-"Anvil"); (b) certain executive employees of Anvil formed Natco which purchased the retail division of Anvil for $16 million; (c) at the direction and insistence of Mr. Riklis, Natco agreed to pay a finder's fee to Mr. Olshan, consisting of an option to purchase shares of Natco's capital stock together with certain rights to receive more than $1 million in cash upon the cancellation of the option under certain circumstances, the right to purchase certain additional shares of Natco's capital stock, and a five-year consulting agreement with Natco at $75,000 per year; (d) the finder's fee was worth in the aggregate approximately $2 million; (e) the finder's fee was not earned by Mr. Olshan, but was paid to him as a long-time friend and business associate of Mr. Riklis; (f) the finder's fee rightfully belonged to Rapid as part of the purchase price paid by Natco for the retail division of Anvil; and (g) such sale was made for grossly inadequate consideration. The complaint seeks compensatory damages on behalf of Rapid in an amount equal to the value of the finder's fee and the alleged unjust enrichment of Natco and punitive damages against the individual defendants.

Plaintiff has moved to amend his complaint to dismiss Natco and Morton L. Olshan as defendants and to make, in essence, the following allegations in lieu of the previously asserted allegations: (i) in 1972, Rapid owned the B.V.D. Company, Inc. (now Anvil); (ii) certain executive employees of Anvil formed Natco which purchased the retail division of Anvil for $16 million; and (iii) the price received by Rapid from Natco was grossly inadequate and was substantially below the market value of the retail division. The proposed amended complaint seeks damages on behalf of Rapid equal to the difference between the true value of the retail division and the actual price paid for the division by Natco. The motion was denied by order dated January 29, 1981. Plaintiff has appealed from that order.

Litigation Relating to 1979 Exchange Offer

In response to an exchange offer (the "Exchange Offer") to common and preferred stockholders, which expired November 30, 1979, Rapid issued 2,671,790 shares of a new $3.00 redeemable preference stock (the "$3.00 Preference Stock") in exchange for 2,051,868 shares of Rapid Common Stock and

shares of converible preferred stock convertible into 619,922 shares of Rapid Common Stock. On or about April 1, 1980, an action was instituted in the Court of Chancery of the State of Delaware by Benjamin M. Clasky, allegedly a stockholder of Rapid, on behalf of all stockholders of Rapid similarly situated and derivatively on behalf of Rapid. The complaint names as defendants Rapid and Meshulam Riklis, Isidore A. Becker, Harold S. Divine, Leonard C. Lane, Arie Genger and Mona R. Ackerman (directors of Rapid). In addition, certain former directors of Rapid are named as defendants. The complaint alleges that prior to August 16, 1979, Mr. Riklis, in concert with the other individual defendants, entered into a plan and scheme to increase Mr. Riklis' alleged domination and control of Rapid through Kenton by means of a recapitalization plan enabling him to prevent others from obtaining control of Rapid. In furtherance of such plan and scheme, Rapid was caused to issue a proxy statement dated September 17, 1979, for a meeting of stockholders to be held on October 16, 1979. At such meeting, Rapid stockholders would be asked to approve an amendment to Rapid's Certificate of Incorporation authorizing a new class of preference stock and, upon such approval, Rapid intended to issue a series of preference stock in connection with the Exchange Offer which was then contemplated. The complaint further alleges that prior to the issuance of the aforesaid proxy statement, Rapid's Board of Directors had authorized a program of expansion of retail store operations which anticipated the opening of approximately 150 stores a year in various Rapid divisions and that the proxy statement failed to disclose such expansion program. The complaint alleges that following the approval by Rapid's stockholders of the amendment to Rapid's Certificate of Incorporation, Rapid's Board of Directors authorized the Exchange Offer, fixed the designations, preferences and rights of the $3.00 Preference Stock and set the dividend rate thereon at $3.00 per share. The complaint further alleges that as a result of the Exchange Offer, Kenton's interest in Rapid was increased from 23.5% to 32% of Rapid's outstanding stock and, therefore, Mr. Riklis' control over Rapid was also increased. The amendment to Rapid's Certificate of Incorporation and the consummation of the Exchange Offer are alleged not to have served a bona fide corporate purpose of Rapid, but were intended to benefit Mr. Riklis. As a consequence of the Exchange Offer, it is alleged that Rapid obligated itself to pay annual cumulative dividends of approximately $8,570,000, which exceeds by approximately $7,740,000, the cumulative dividends Rapid was obligated to pay prior to the Exchange Offer. The complaint alleges that the individual defendants, as members of Rapid's Board of Directors, violated their fiduciary duties to Rapid since they acted with the knowledge that no bona fide corporate purpose would be served and a waste of Rapid's assets would occur if the Exchange Offer was consummated. The complaint seeks preliminary and permanent injunctions of the Exchange Offer or, alternatively, the rescission of the Exchange Offer, an order requiring defendants to account for damages sustained by Rapid as a result of the acts and transactions alleged in the complaint, and an order awarding to plaintiff the costs and disbursements of the action including fees of attorneys and accountants.

Asbestosis Litigation

Rapid and Glen Alden Corporation ("Glen Alden"), a predecessor of Rapid, together with other corporations which are allegedly miners, manufacturers and distributors of asbestos or products containing asbestos,

are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of persons exposed to asbestos or products containing asbestos. There are presently pending approximately 180 actions against Rapid or Glen Alden in which an aggregate of approximately 430 persons are seeking compensatory and punitive damages. Two of the actions have been brought purportedly on behalf of numerous individuals who are alleged to be members of the same class. In the only determination as to the propriety of permitting an asbestos action to be maintained as a class action, class action status was denied. It is possible that additional actions will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture or distribution of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged, among other things, in the manufacture of asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills. On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed corporation called The Philip Carey Manufacturing Company, an Ohio corporation ("New Carey") which was then a wholly-owned subsidiary of Glen Alden. As part of such transaction, New Carey contractually assumed (the "Indemnification Agreement") all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares thereof, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex. In all of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. To date, in certain of the actions in which such claims have been made, Celotex has denied Rapid's and Glen Alden's claims and in the remainder of such actions, Celotex has been deemed to have denied such claims. Although in certain of the actions, Celotex has admitted that it is the successor in interest of Old Carey and New Carey, Celotex has asserted cross-claims against Rapid or Glen Alden in certain of the actions for indemnification or contribution as to judgments for compensatory or punitive damage which may be rendered against Celotex. Rapid and Glen Alden have denied the claims asserted by Celotex. Should any of the actions in which Rapid is a party result in judgments against Rapid, Rapid believes that it would be entitled to and would seek indemnification from Celotex under the Indemnification Agreement. To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried, and except for the settlement of one action in which an insurance carrier has paid $4,000, neither Rapid nor Glen Alden nor any

insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled. In April 1981, a jury rendered a verdict for compensatory and punitive damages against Celotex and other defendants, in amounts to be determined by the jury in separate trials on damages, in fourteen asbestos actions which had been consolidated for trial. Rapid or Glen Alden had originally been defendants in each of the actions, but had been discharged by stipulation among all parties. In agreeing to permit Rapid or Glen Alden to be discharged from the actions, Celotex reserved the right to seek indemnification or contribution from Rapid or Glen Alden in the event a judgment for punitive damages in the actions was entered against Celotex. In the two trials held to date to fix damages, verdicts for punitive damages against Celotex in the respective amounts of $3,000 and $60,000 have been returned.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary liability coverage for bodily injury has been maintained by Rapid or Glen Alden having aggregate annual maximum policy limits in the sum of $3,000,000. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage for such years substantially over the amount of the primary insurance coverage. Rapid believes that Old Carey maintained some amounts of primary liability coverage for bodily injury prior to 1966, and since at least 1957. The policy limits of such insurance are presently unknown to Rapid.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute to the settlement fund have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Related to Employment Matters

In September 1979, an action was instituted in the United States District Court for the Northern District of Illinois, Eastern Division, by Alvin Hayes and others against Schenley Affiliated Brands Corp., a subsidiary of Schenley, and others. Each of the plaintiffs allege that he is presently or was previously employed by the defendants. The complaint alleges, in essence, that the defendants have violated certain provisions of the Civil Rights Act of 1964 by discriminating against plaintiffs in job classifications and job assignments because of their race. In addition, the complaint alleges that the defendants have maintained policies and practices with respect to, among other things, wages, fringe benefits and other terms and conditions of employment, which have operated to deny equal opportunities to plaintiffs because of their race. The complaint seeks a declaratory judgment that defendants' acts set forth in the complaint violated plaintiffs' rights under the Civil Rights Act of 1964 and a permanent injunction enjoining the defendants from engaging in any employment policy or practice which discriminates against plaintiffs on the basis of race. The complaint further seeks appropriate back pay and reimbursement for lost wages, social security, experience, training opportunities and other benefits, and other affirmative relief, including an affirmative action program designed to eliminate the effects of the discriminatory practices set forth in the complaint. In addition, the

complaint seeks compensatory damages of $25,000,000 and punitive damages of $25,000,000, and costs and disbursements in connection with the action, including counsel fees. By order dated July 14, 1980, the court granted defendants' motion to join the Liquor and Wine Salesmen's Union, Local No. 62 (the "Union"), as a party defendant, and granted defendants' motion to dismiss the complaint insofar as it related to claims asserted under Title VII of the Civil Rights Act of 1964. Certain other claims were allowed by the court to stand. On August 13, 1980, plaintiffs filed an appeal from that portion of the order which dismissed certain claims, and defendants have filed a motion to dismiss the appeal. Plaintiffs filed an amended complaint joining the Union as a defendant on September 9, 1980, and the Union has moved to dismiss the action against it. Both motions and plaintiffs' appeal are pending.

Litigation Relating to Dialysis Facility

Actions have been commenced against, among others, IHC, certain of its employees and Rapid in the Superior Court of the State of California for the County of Los Angeles, relating to the treatment in September 1978 of several persons at the Century City Hospital dialysis facility (the "facility") in Century City, California, which facility was managed by IHC. During February 1980, Century City Hospital's license to operate the facility was revoked by the State of California. Two of these actions were commenced during 1979 by such persons or their representatives or persons claiming through them seeking unspecified general and punitive damages allegedly arising out of injuries or wrongful death occurring by reason of the alleged negligence of defendants in the treatment of such persons. One of such actions involving one plaintiff has been settled by Rapid's insurance carrier for $21,500. To the extent that any judgments might be rendered against Rapid in the remaining action, it would seek indemnification from its liability insurance carriers. At all relevant times Rapid has maintained liability coverage for bodily injury having maximum policy limits in the sum of $1,000,000 per medical incident.

As a consequence of the injuries or wrongful deaths allegedly suffered by such persons, several additional actions have been commenced. In March 1980, an action was commenced against Rapid by Century City Hospital seeking general damages in the sum of $8,400,000 and punitive damages in the sum of $25,200,000, plus costs, for breach of contract and tortious breach of contract. The complaint alleges, among other things, that as a result of the treatment of certain persons at the facility in September 1978, Rapid breached its lease agreement with Century City Hospital by failing to render and deliver dialysis treatments at the facility in accordance with professional standards and regulations adopted by the State of California Department of Health Services. The complaint further alleges that as a result of defendants' breaches and of their subsequent failure to notify plaintiff of the nature of their breaches, plaintiff was damaged in that the sale price of Century City Hospital was depressed and revenues from hospital services were diminished.

Rapid is the plaintiff in an action commenced in June 1979 in which the defendants are persons from whom Rapid acquired the facility. The complaint seeks damages in excess of $200,000, a declaration that Rapid is entitled to set off all amounts payable under the terms of the sale agreement ("Sale Agreement") with defendants until such time as Rapid is fully compensated for all losses resulting from defendants' breaches thereof, and for costs and

attorneys' fees. The complaint also alleges that defendant Dr. Gonick breached his professional services agreement with Rapid by, inter alia, failing properly to supervise and review the operation of the facility at various times including during September 1978. In April 1980, Century City Dialysis Services, Inc. and Dr. Gonick filed a cross-complaint in the action against, inter alia, Rapid and certain of its subsidiaries and present and former officers and employees. The cross-complaint alleges breach of the Sale Agreement and the security agreement therefor; fraud in connection with the alleged failure to perform under an unexecuted written remedial program following the deaths and injuries which allegedly occurred in the facility during September 1978; breach of the implied covenants of good faith and fair dealing in connection with Dr. Gonick's request to Rapid's liability insurance carriers for legal counseling and defense in connection with the September 1978 episode; conversion and slander of title in connection with the alleged removal of certain tangible assets from the facility, which assets, cross-complainants assert, were allegedly the subject of a security interest in their favor, and the alleged transfer of those physical assets; money had and received in connection with cross-defendants' alleged failure to honor cross-complainants' attempts to levy upon certain accounts receivable and other items which they claim were additional security under the Sale Agreement; and an accounting in connection with the disposition of the purported security. Additionally, the cross-complaints assert causes of action against Rapid only for breach of its professional services agreement with Dr. Gonick, and breach of the unexecuted written remedial program agreement with Dr. Gonick. The cross-complaint seeks a judgment against Rapid and its subsidiary, GEPL Successor Corp. ("GEPL"), for an accounting, punitive damages in the sum of $1,000,000, and compensatory damages in the approximate sum of $5,000,000.

In January 1980, an action was commenced seeking a judgment enjoining Rapid and GEPL and their agents and affiliates from removing from the Century City facility any of the assets which are the purported security for the Sale Agreement. In February 1980, Rapid and GEPL filed a cross-complaint against the plaintiffs in this action, seeking declaratory relief, quiet title and a preliminary injunction. Rapid and GEPL have obtained a temporary restraining order and a preliminary injunction enjoining plaintiffs and cross-defendants from performing any act to enforce any lien against or to obtain possesion of the property referred to in the action as "the security" until further order of the court.

Litigation in Respect of the Merger

In the two pending actions described below, it has been claimed that, inter alia, the Merger was unfair to Rapid's minority stockholders.

On or about April 17, 1980, an action was instituted in the Court of Chancery of the State of Delaware by Sam Wietschner, allegedly a stockholder of Rapid, on behalf of all stockholders of Rapid similarly situated. The complaint names as defendants Rapid, Kenton, AFC and Riklis.

The complaint alleged that the transactions orginally proposed in the public announcement (which concerned a transaction whereby Rapid would become a privately held corporation) were designed for the sole purpose of eliminating the minority stockholders of Rapid and allowing the named

defendants and their affiliates to acquire all of Rapid. The complaint alleged that the terms of such transactions would force the minority stockholders to exchange their shares for a new Rapid debenture and that the terms were grossly unfair to the minority stockholders and were unduly favorable to the named defendants and their affiliates. The complaint further alleged that defendants and their affiliates, as majority stockholders of Rapid, owed a fiduciary duty to the minority stockholders, which duty they would have breached if the transactions were effectuated.

The complaint sought temporarily and permanently to enjoin the transactions; to require defendants, jointly and severally, to account to plaintiff and the class represented by him for profits realized by defendants; and an award to plaintiff of his costs and expenses of the action including reasonable attorneys' fees.

On or about December 22, 1980, an amended and supplemental complaint was served in the Wietschner action. The amended and supplemental complaint named as defendants, in addition to Rapid, Kenton, AFC and Meshulam Riklis, the members of the board of directors of Rapid and one former member. The amended and supplemental complaint contained allegations similar to those made in the original complaint and further alleged that the terms of the Merger as initially proposed represented an insubstantial revision of the terms previously announced; such revised terms were not significantly better than the terms of the original announcement; the Transaction Review Committee, either through fraud, recklessness, or negligence, failed to perform the duties required of it in relation to the Merger; such revised terms were grossly unfair to the public stockholders of Rapid; and defendants violated their fiduciary duties to those stockholders.

The amended and supplemental complaint in the Wietschner action, which was brought as a class action on behalf of holders of shares of Rapid Common Stock and Rapid $3.00 Preference Stock, sought substantially the same relief sought in the original complaint.

The parties to the Wietschner action have reached a settlement which is subject to court approval. The stipulation of settlement provides for the payment of $.25 per share to holders of shares of Rapid Common Stock and $3.00 Preference Stock who received Rapid 10% debentures as a result of the Merger. The stipulation of settlement contemplates that defendants will be discharged from any and all liability in that action. A hearing on the proposed settlement will be held by the Court in Delaware on June 5, 1981. Notice thereof has been given to those persons who were holders of shares of Rapid Common Stock or $3.00 Preference Stock on the date of the consummation of the Merger. The stipulation of settlement in the Wietschner action contains an acknowledgment by plaintiff and his attorneys that the terms of the Merger are, after giving effect to the distribution to be made pursuant to the settlement agreement, fair and reasonable to the public stockholders of Rapid. If the court in Delaware approves the settlement of the Wietschner action, defendants therein will seek to obtain the dismissal of the Fisher and Meltzer action described below on the basis of the judgment to be entered in the Wietschner action.

On or about April 24, 1980, an action was instituted in the Supreme Court of the State of New York, County of New York, by Milton Fisher and Abraham Meltzer, allegedly holders of equity securities of Rapid, on behalf of all security holders of Rapid similarly situated who would be required to surrender their Rapid equity securities pursuant to the transactions proposed in the original public announcement of the transactions. The complaint named as defendants Rapid, Kenton, AFC, "John Does" 1-10, and the following directors of Rapid: Meshulam Riklis, Isidore A. Becker, Harold S. Divine, Leonard C. Lane, Arie Genger and Mona R. Ackerman. In addition, certain former directors of Rapid are named as defendants.

The complaint alleged that Kenton, AFC and Meshulam Riklis control and dominate Rapid and its business policies and affairs and the decisions of its officers and directors. The complaint alleged that as controlling stockholders of Rapid, Kenton, AFC and Meshulam Riklis have a fiduciary obligation to deal with the other holders of Rapid's securities.

The complaint alleged that Rapid has had an increase in its sales each year from 1970 to 1979 and has had an increase in its profits, net income and earnings in each year from 1975 to 1979 and an increase in its dividends from 1976 to 1979. As a consequence, Rapid's equity securities have been increasingly attractive investments and have made Rapid and its securities substantially more valuable than as reflected by the terms of the transactions.

The complaint further alleged that the defendants were acting in concert to divest the holders of Rapid's equity securities of their interests in Rapid on grossly unfair terms and in violation of their fiduciary duties. It was alleged that the terms of the transactions are unfair in that the Rapid debentures to be exchanged for Rapid's equity securities were worth only a fraction of their face amount and have a value substantially less than the going concern value of the Rapid securities for which they were to be exchanged; the terms of the transactions did not take into account the increasing value of Rapid's equity securities; and the value of the Rapid debentures to be offered represented little, if any, premium over the market price of the Rapid equity securities to be exchanged. In addition, it was alleged that the terms of the transactions were so grossly inadequate and unfair as to constitute a fraud on the public equity security holders of Rapid; the consummation of the transactions would constitute an illegal appropriation of such security holders' assets to the benefit of defendants other than Rapid; no legitimate business interest of Rapid would be served by the consummation of the transactions; and neither the applicable state laws nor Rapid's Restated Certificate of Incorporation permits or authorizes the transactions on the terms thereof.

The complaint sought damages sustained by plaintiffs and the class, including an award to plaintiffs of their costs and disbursements of the action and reasonable attorneys' and professionals' fees. In addition, the complaint sought preliminarily and permanently to enjoin the transactions and, to the extent consummated prior to adjudication, rescission of the transactions.

In the pending action described below, it has been claimed that, inter alia, the Merger was unfair to Kenton's minority stockholders.

Shortly following the original announcement of the transactions, a supplemental consolidated complaint was served in an action entitled Pogostin, et. al. v. Ackerman, et. al., pending in the Supreme Court of the State of New York, County of New York. The Pogostin action resulted from the consolidation of three separate actions, all commenced during October 1977 by stockholders of Kenton, and the addition of another plaintiff to the consolidated action. The complaints in those actions alleged that Mr. Riklis had used his control of Kenton to benefit himself at Kenton's expense by causing Kenton to agree to purchase shares of Rapid Common Stock from Mr. Riklis and others for purchase prices that were unfair, excessive and unjust to Kenton. The complaints sought, among other things, cancellation and rescission of the transactions and the costs and expenses of litigation. In the supplemental consolidated complaint, the allegations contained in the original complaints were repeated. In addition, plaintiffs alleged that the proposal to the Rapid stockholders is a continuation by Mr. Riklis of his use of Kenton for his own benefit, to the disadvantage and harm of Kenton. The supplemental consolidated complaint further alleged that while the Rapid public stockholders were being afforded the opportunity of being bought out, the Kenton public stockholders were being denied that right because Mr. Riklis dominates and controls Kenton and uses that domination and control for his own benefit and advantage and to the disadvantage of Kenton and its public stockholders. The supplemental consolidated complaint sought, as alternative relief to cancellation and rescission of the sales by Mr. Riklis and others of Rapid Common Stock to Kenton, the creation of a plan whereby Kenton's public stockholders would receive upon Rapid "going private" their fair and proportionate share of Kenton's present value "prior to the issuance of the debentures as part of Rapid's 'going private' plan, leaving the large risk of Kenton's and Rapid's future to Mr. Riklis and those associated with him". A similar complaint was filed on June 11, 1980 in the Chancery Court of the State of Delaware, in and for New Castle County, in an action entitled Pogostin, et. al. v. Ackerman, et. al., C.A. No. 6196, by the plaintiffs who filed the Pogostin action in New York.

The parties to the Pogostin action in Delaware have entered into a stipulation of settlement of that action, which is binding subject to the approval of the court and which provides, among other things, for the dismissal with prejudice of all claims made in the action if the Merger is consummated. The stipulation of settlement contemplates that, inter alia, if the Merger is consummated the related consolidated action in New York will be dismissed, defendants will be discharged from any and all liability under the original and subsequent complaints in the Delaware and New York actions, any recovery in the actions challenging the Merger on behalf of the stockholders of Rapid (see description above) will result in a proportionate recovery for Kenton stockholders (other than the Riklis family interest, AFC, and members of Kenton's management) but in no event more than $.25 per share of Kenton Common Stock, and plaintiffs counsel will apply to the court in Delaware for fees and disbursements to be paid to the extent approved by the court. A hearing on the proposed settlement will be held by the court on May 24, 1981. Notice has been given to those persons who were stockholders of Kenton on the date of consummation of the Merger. If the settlement is approved by the court in Delaware, and if the settlement in the Wietschner action (see description above) is also approved by the court in Delaware, holders of shares of Kenton Common Stock on the date the Merger was consummated will receive an additional $.22 per share.

Additional Litigation, etc.

Various other legal proceedings are pending against Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, treble damage actions under the antitrust laws, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see "Alcoholic Beverages-Environment" in Item 1).

Additionally, Rapid and its subsidiaries are the subject of various other governmental proceedings and investigations by federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries.

Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid, as of April 15, 1981.

Title of Class	Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Common Stock	Riklis Family Corporation 888 Seventh Avenue New York, NY 10106	1,461,364	60%
	American Financial Corporation One East Fourth Street Cincinnati, OH 45202	974,243	40%

As a result of the Merger (see "Introductory Note" above), Rapid became a privately held corporation, and except for Meshulam Riklis (director and officer) and Abraham G. Levin (director), the directors and officers of Rapid do not own any Rapid equity securities. As of April 15, 1981, Mr. Riklis beneficially owns 11,250 shares of Rapid Redeemable Preferred Stock, which constitutes approximately 10% of the class, and the balance of such shares are beneficially owned by AFC. In addition, Riklis Family Corporation has granted an option to purchase up to 97,424 shares of Rapid Common Stock (approximately 4% of the class) to a partnership, of which Mr. Levin is the managing partner, composed of certain partners (and members of their families) of the law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid. Mr. Levin is the senior partner of Messrs. Rubin Baum Levin Constant & Friedman. The option is exercisable for a period of 30 years (subject to earlier termination upon a disposition by Riklis Family Corporation of its shares of Rapid Common Stock) at an exercise price of $30.79 per share. The rights under the option are subject to the security interest granted to certain banks in the

shares of Rapid Common Stock owned by Riklis Family Corporation (see the description of such security interests below in this Item 4).

In connection with the Merger, Riklis Family Corporation, AFC and Rapid have agreed to enter into a stockholders' agreement relating to the Rapid Common Stock, which will principally reflect the following:

1. Neither Riklis Family Corporation nor AFC will sell or dispose of any of its Rapid Common Stock without affording the other stockholders and Rapid the right of first refusal on the same terms to acquire such shares; provided, however, that Riklis Family Corporation shall be entitled to sell or dispose of up to an aggregate of 9% of the total outstanding shares of Rapid Common Stock (to a limited number of persons all of whom will have agreed to join in the stockholders' agreement) without affording AFC and Rapid the right of first refusal (see the description above of the option to purchase shares of Rapid Common Stock granted by Riklis Family Corporation).

2. Riklis Family Corporation will agree that if it sells shares of Rapid Common Stock (other than sales of less than an aggregate of 9% of the total outstanding shares) it will obtain from the purchaser an option in favor of AFC to sell the same proportion of the shares of Rapid Common Stock owned by AFC on the same per share terms as the shares sold by it.

3. So long as AFC continues to own at least 15% of the total outstanding shares of Rapid Common Stock, Rapid will not issue additional shares of Rapid Common Stock without affording AFC and Riklis Family Corporation preemptive rights to ensure each of them the ability to own sufficient shares of Rapid Common Stock to retain their then respective percentage ownership of Rapid Common Stock.

4. AFC and Riklis Family Corporation will agree to vote their shares of Rapid Common Stock for the Board of Directors as now constituted (see Item 9 - "Directors and Executive Officers of the Registrant" below) for the fiscal year ended January 31, 1982, and will further agree to vote their shares to elect the members of the Transaction Review Committee to the Board of Directors of Rapid until at least August 15, 1984 (see Item 3 - "Legal Proceedings - Securities and Exchange Commission" above). The election of all directors, other than the members of the Transaction Review Committee, shall be by cumulative voting, and the number of directors shall be at least 10.

5. AFC will have the right at any time to cause Rapid to purchase all, but not less than all of the shares of Rapid Common Stock owned by AFC in the following manner.

Unless the parties otherwise agree, AFC and Riklis Family Corporation shall each select an arbitrator (which shall be a nationally recognized investment or commercial bank or accounting firm), which arbitrators shall, if they are unable to agree on the terms of the purchase, select a third arbitrator. The third arbitrator shall value the shares of AFC's Rapid Common Stock and determine the purchase price for such shares; provided, however, that the consideration to be paid and the method of payment for such shares must comply with certain restrictions relating to the repurchase of shares of Rapid capital stock contained in the indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006 (for a description of such restrictions see Item 5 - "Market for the Registrant's Common Stock and Related Security Holder Matters" below). The decision reached in the arbitration shall be final and binding upon the parties.

6. Upon the death, permanent disability or mental incapacity of Meshulam Riklis or his failure or inability, by reason of sale or otherwise, to maintain majority voting control, directly or indirectly, of Rapid Common Stock, AFC shall have the right to cause Rapid to purchase all, but not less than all, of the shares of Rapid Common Stock owned by it by giving notice to Rapid and Riklis Family Corporation that it desires Rapid to purchase such shares setting forth a per share price, method of and the security, if any, for payment. For a period of ninety (90) days following the notice, Riklis Family Corporation shall have the right to cause Rapid to purchase all, but not less than all, shares of Rapid Common Stock owned by it in lieu of purchasing the shares of AFC, on the same terms specified in AFC's notice. The terms of any purchase must comply with the restrictions described in paragraph 5 above.

Rapid has been advised that Mr. Riklis has borrowed money from Seattle-First National Bank ("Seattle") which is payable in installments over the next three years, bearing interest at a rate related to the bank's prime rate; provided, however, that at any time Seattle has the right to demand payment of the loan. The loan is secured by a security interest in all of the shares of Rapid Common Stock owned by Riklis Family Corporation, together with certain other collateral. In addition, Rapid has been advised that Mr. Riklis has entered into an agreement with Chemical Bank ("Chemical") which restructured and restated Mr. Riklis' outstanding indebtedness to Chemical. The indebtedness is payable on December 31, 1985, with the portion representing principal, bearing interest at a fixed rate which is less than the current prime rate, and with the portion representing accrued interest not bearing additional interest. If there is an event of default under the agreement, the entire indebtedness would bear interest at Chemical's prime rate. Subject to the prior security interest of Seattle, Chemical was granted a security interest in all of the shares of Rapid Common Stock owned by Riklis Family Corporation. In addition, Chemical was granted a security interest in

certain other collateral. In the absence of a default of Mr. Riklis' obligations to Seattle or Chemical, Riklis Family Corporation has the right to vote the shares of Rapid Common Stock held as collateral. In connection with the restructuring of Mr. Riklis' indebtedness, Chemical granted an option to AFC which provides that if an event of default occurs under the agreement, Chemical would notify AFC which would then nave the right to acquire at the face value thereof Chemical's claims against Mr. Riklis together with the collateral securing such claims. In the event of a default in the repayment of Riklis' obligations to either Seattle or Chemical, any resulting foreclosure upon the shares of Rapid Common Stock could result in a change of control of Rapid.

Chemical is the agent bank under McCrory's Credit Agreement, dated as of May 7, 1979, and Seattle is a lender to Rapid. Reference is made to Note 6 to Financial Statements for a description of the McCrory Credit Agreement.

None of Rapid's officers or directors own any equity securities of Rapid's subsidiaries, except that Leonard C. Lane owns 1,850 shares of ILC common stock (of which 750,690 shares are outstanding).

PART II.

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters.

Trading and Dividends

As a result of the Merger (see "Introductory Note" above), Rapid Common Stock is no longer publicly traded. The number of holders of record on April 15, 1981 of each class of equity securities of Rapid is set forth in the following table:

Title of Class	Number of Holders of Record
Common Stock	2
Redeemable Preferred Stock	2

During the two years ended January 31, 1981, Kenton did not pay any dividends on its common stock; for a description of the dividends paid by Old Rapid on shares of its common stock during such period, see Item 6 below.

A dividend has been declared on Rapid Common Stock payable on April 30, 1981 in the amount of $.10 per share.

Dividend Restrictions

The indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006, provides that Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent

to January 31, 1981 shall exceed the sum of (a) 85% of the aggregate of the (i) consolidated net income of Old Rapid (see "Introductory Note" above) for its fiscal year ended January 31, 1981, less any dividends paid by Old Rapid on shares of its capital stock during such fiscal year and (ii) consolidated net income of Rapid subsequent to January 31, 1981, (b) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1981 of capital stock of Rapid, and (c) the aggregate net proceeds received by Rapid from the issue or sale of any indebtedness of Rapid converted after January 31, 1981 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declaration, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock.

Consolidated net income is defined as the reported consolidated net income of Old Rapid and its consolidated subsidiaries for its fiscal year ended January 31, 1981 and the reported consolidated net income of Rapid and its consolidated subsidiaries for subsequent periods determined in accordance with generally accepted accounting principles, excluding (i) the portion thereof allocable to minority interests in any such consolidated subsidiaries, (ii) net income of any corporation (other than a consolidated subsidiary) combined with Rapid or any consolidated subsidiary on a "pooling of interests" basis earned prior to the date of combination, and (iii) all charges incurred and credits realized which are unusual in nature and infrequently occurring. At January 31, 1981, the amount available for dividends was approximately $12,000,000.

Item 6. Selected Financial Data.

	Year Ended January 31,				
	1981	1980	1979	1978(b)	1977(b)
	(Dollars in millions, except per share amounts)				
Sales (a)	$2,588.7	$2,603.9	$2,474.9	$2,389.8	$2,361.5
Income from continuing operations (a)..	27.6	34.6	37.2	25.1	13.9
Total assets (a)	1,561.7	1,587.7	1,584.1	1,561.7	1,480.5
Long-term debt (a)	855.2	782.7	812.0	731.6	817.4
Capital lease obligations	75.7	85.4	97.3	106.5	112.6
$3.00 preference stock (a)	-	53.5	-	-	-
Per share:					
Income from continuing operations:					
Primary (a)	3.55	4.55	4.52	2.95	1.54
Fully diluted ...	3.38	4.02	3.92	2.65	1.43
Dividends on common stock	.60	.60	.40	-	-
Other:					
Return on sales	1.1%	1.3%	1.5%	1.1%	.6%
Working capital at year-end	467.8	593.0	618.6	512.6	521.3
Current ratio	2.1	2.8	2.9	2.2	2.3
Ratio of earnings to fixed charges and preferred dividends combined (a)	1.20	1.37	1.54	1.30	1.26
Number of employees at year-end	46,000	48,000	50,000	51,500	53,000

(a) On January 31, 1981, the Merger was consummated. See "Introductory Note" above and Note 2 to Financial Statements for certain unaudited pro forma information giving effect to the Merger.

(b) During the year ended January 31, 1979 the last-in, first-out method of inventory pricing for substantially all inventories was adopted.

Supplemental Information on Changing Prices Required by the FASB

The United States in recent years has experienced a high rate of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33 - Financial Reporting and Changing Prices. This statement requires companies to demonstrate the effects of inflation and changing prices on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Historical data is adjusted for general inflation by using the Consumer Price Index for all Urban Consumers as a broad-based measure of general inflation. The financial data for any comparison of a series of years that results from this method are expressed in terms of constant dollars of purchasing power.

Current cost data is determined based upon year end prices for inventory and property of the type and age used in the company's businesses. Such data for inventory and cost of goods sold is based upon current invoices, price lists and quotations from suppliers. Data for fixed assets is generally based upon indices which approximate the current cost of acquiring used equipment and facilities.

Rapid uses the LIFO inventory method in valuing substantially all of its inventories. Accordingly, since the LIFO method matches current costs with current revenues, Rapid has already made some allowance for the effects of general inflation and changing prices in the historical financial statements.

The following data was prepared in accordance with the FASB Statement to demonstrate the effects of inflation and changing prices.

Net income adjusted for general inflation and changing prices

	Year ended January 31, 1981		
	As reported	Adjusted for general inflation (constant dollars)	Adjusted for changes in specific prices (current costs)
		(In Millions)	
Net sales and other revenues	$2,603	$2,603	$2,603
Cost of goods sold	1,864	1,895	1,896
Selling, general and administrative expenses	539	539	539
Interest and debt expense	118	118	118
Depreciation and amortization	32	60	67
Provision for income taxes *	23	23	23
	2,576	2,635	2,643
Income (loss) from operations	$ 27	$ (32)	$ (40)
Gain from decline in purchasing power of net amounts owed		$ 119	$ 119
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes)			$ 220
Effect of increase in general price level			161
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level			$ 59

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of general inflation.

At January 31, 1981, the current cost of inventory and property, plant and equipment (net of accumulated depreciation and amortization) was approximately $791,000,000 and $724,000,000, respectively.

Five year comparison of selected supplementary financial data adjusted for general inflation and changing prices in average fiscal 1980 dollars

	Year Ended January 31,				
	1981	1980	1979	1978	1977
	(In Millions, Except Per Share Amounts)				
Net sales:					
As reported	$2,589	$2,604	$2,475	$2,390	$2,361
Adjusted for general inflation	$2,589	$2,951	$3,131	$3,262	$3,435
Reported information adjusted for general inflation					
Income (loss) from operations	$ (32)	$ 9			
Income (loss) from operations per common share - primary.	$ (8.02)	$ .81			
Gain from decline in purchasing power of net amounts owed	$ 119	$ 131			
Net assets at year end	$ 552	$ 665			
Current cost information					
Loss from operations	$ (40)	$ (21)			
Loss from operations per common share - primary	$(9.57)	$(3.72)			
Net assets at year end	$ 679	$ 682			
Other information					
Cash dividends declared per common share	$ .60	$ .68	$ .51	-	-
Market price per common share at year end	$25.25*	$21.36	$18.25	$ 7.98	$ 9.41
Average consumer price index.	249.1	219.8	196.9	182.5	171.2

* At close of business on January 30, 1981, last day prior to consummation of Merger (see "Introductory Note" above).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Net sales in fiscal 1980 totaled $2,588,674,000, less than 1% below 1979 sales of $2,603,865,000. Retail sales and apparel sales increased moderately while alcoholic beverage sales declined moderately due principally to the disposal of "in house" distributors in 1979 and 1980. Other revenues in 1980 increased by $5,370,000 principally due to the gain on the sales of distributors. Total costs and expenses were virtually unchanged from the prior year, although as a percentage of revenues there was an increase in 1980. This was caused by the expenses incurred in operating over 100 additional stores and the inventory liquidation losses incurred in the industrial group. Net income for 1980 was $27,566,000 compared to $34,603,000 in 1979. The decline in net income was primarily due to reduced sales without corresponding reductions in costs and expenses.

Net sales increased 5% or $128,949,000 during fiscal 1979. Retail sales accounted for 67% of this increase, with improved sales per store in the McCrory and Otasco stores and an additional 72 Lerner stores. Cost of goods sold also increased by 5% or $92,378,000. Selling, general and adminstrative expenses increased by $42,159,000, reflecting the increased costs associated with the new stores and additional volume related thereto. Interest expenses increased by $11,321,000 due primarily to higher prime interest rates in effect during the year. The effective income tax rate declined from 52.5% to 45.4% primarily due to a reduction in the statutory rate and increased investment tax credits. The decline in net income was principally due to record prime interest rates and the increased impact of the "LIFO" method of valuing substantially all of Rapid's inventories.

Liquidity and Capital Resources

Rapid and its subsidiaries, during the three years ended January 31, 1981, have funded debt repayments, capital additions and dividends principally through earnings from operations, depreciation and amortization of property and debt discount, and deferred income taxes. Seasonal working capital requirements have generally been provided by borrowings under bank credit agreements.

The Merger of Rapid and Kenton on January 31, 1981 and the warrant exchange offer, which expired on April 20, 1981, resulted in the issuance of approximately $288,500,000 principal amount of Rapid 10% debentures. Accordingly, future interest expense will be significantly increased. Such additional interest expense will be offset in part by reductions in related income taxes attributable to such interest and amortization of original issue debt discount, together with reductions in cash dividends on preference, preferred and common stocks. (See "Introductory Note" above and Note 2 to Financial Statements).

Rapid anticipates that repayments of long-term debt and expenditures for capital additions will be provided from general corporate funds or other sources, which may include proceeds from borrowings, sales of assets or refinancings.

Rapid intends to review on a continuing basis the return on invested capital of all of its assets and businesses, and may from time to time negotiate for the sale of or consider other dispositions of certain of its assets or businesses. If any such sales or dispositions are made, they may be made to present management involved in the operations of such assets or businesses, and in all such cases the Transaction Review Committee of the Board of Directors would review the terms of the transaction. It is anticipated that if any assets or businesses are sold, the proceeds from such sale would be reinvested in Rapid's continuing businesses.

See Item 6 for the effects of inflation on Rapid's Financial Statements.

Item 8. Financial Statements and Supplementary Data.

See accompanying Index to Financial Statements and Schedules on page F-1.

PART III.

Item 9. Directors and Executive Officers of the Registrant.

The following table sets forth the principal occupations and certain related information of Rapid's directors and executive officers as of April 15, 1981:

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Mona R. Ackerman (a)	34	Private investor; Senior editor, Jove Books, from March 1979 to January 1981; editor, Dell Publishing Company, 1978 to 1979; story editor, associated with Frank Yablans Productions (motion picture producer), 1975 to 1977; prior thereto was not engaged in business	1976	-
Isidore A. Becker	54	Chairman of the Board and Chief Executive Officer of Schenley for more than the past five years, and Vice Chairman of the Boards of Rapid and McCrory	1963	1961
Harold S. Divine	59	Vice Chairman of the Board of Rapid since May 1977; prior thereto sales and marketing consultant for more than five years	1956-1961 1971-1973 1976	1977

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Arie Genger	35	Executive Vice President of Rapid since May 1980; Vice President and Executive Assistant to the Chairman of the Board of Rapid from June 1976 to May 1980; President and Chief Operating Officer of McCrory since March 1980, and a director of McCrory since August 1977; Executive Vice President of McCrory from May 1977 to March 1980; prior thereto Assistant to the Chairman of the Board of Rapid from January 1972 to June 1976	1978	1976
Seymour Kleinman(b)	62	Senior partner, law firm of Golenbock and Barell, and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than the past five years; Chairman of the Transaction Review Committee of Rapid since August 1979	1979	-
Leonard C. Lane	62	Vice Chairman of the Board of Rapid since February 1981; prior thereto Executive Vice President of Rapid for more than the past five years; and Chairman of the Board of ILC since May 1977	1960	1965
Abraham G. Levin	61	Senior partner, law firm of Rubin Baum Levin Constant & Friedman, for more than the past five years, general counsel to Rapid	1981	-
Carl H. Lindner, III (a)	27	Executive Vice President of Great American Insurance Company, a subsidiary of AFC, since February 1980; prior thereto associated with AFC's banking, insurance and investment companies for more than the past five years	1981	-

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
S. Craig Lindner(a)	26	Executive Vice President of American Money Management Corporation, an investment subsidiary of AFC, since April 1980; prior thereto associated with AFC's banking, insurance and investment companies for more than the past five years	1981	-
Robert C. Lintz(a)	47	Vice President of AFC since April 1979; prior thereto associated with AFC and its subsidiaries in various executive capacities for more than the past five years	1981	-
Daniel J. Manella	55	Executive Vice President of Rapid since February 1981; Chairman of the Board of Kenton from September 1978 to January 1981, and Chief Executive Officer of Kenton from February 1979 to January 1981; Chairman of the Board of the Botany Shirt Division of Rapid since February 1979; prior thereto President and Chief Executive Officer of the Botany Shirt Company from 1975 through January 1979	1980	1981
Dan Palmon(b)(c)	39	Associate Professor of Accounting, Rutgers University since September 1980; prior thereto Assistant Professor of Accounting, New York University, Graduate School of Business, for more than five years	1979	-
Ira D. Riklis(a)	26	President of Ice Cream Ira's Inc. and Specialty Store Group, Inc. (established October 1979 and November 1979, respectively), which are engaged in the operation of retail food services; Vice President of Product Development of American Recreation Group, Inc. from January 1978 to October 1979; prior thereto, a student	1981	-

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Marcia Riklis(a)	30	Vice President of Rapid since May 1980; Assistant to the Chairman of Rapid from October 1977 to May 1980; a student from August 1976 to October 1977; prior thereto employed by Grey Advertising in various capacities from December 1974 to July 1976	1981	1980
Meshulam Riklis(a)	57	Chairman of the Board, President and Chief Executive Officer of Rapid, Vice Chairman of the Board of McCrory, and a director of AITS, Inc. (hotel and casino in Las Vegas, Nevada), for more than the past five years	1955	1955
Leo D. Stone(b)(c)	66	Lecturer in Finance, University of South Florida, since September 1974; prior thereto Professor of Finance at Ohio State University	1979	-
Helen H. Updike(b)	40	Assistant Professor of Economics, Hofstra University since 1978; visiting Assistant Professor of Economics, SUNY, Stony Brook, 1977 and 1978; Assistant Professor of Economics, University of Mass. from 1975 to 1977	1979	-
Stuart H. Aarons	70	Secretary of Rapid for more than the past five years	-	1972
Bernard J. Blaney	57	Vice President and Treasurer of Rapid since 1976 and Vice President - Finance of McCrory since 1977	-	1976
Michael J. Magenheim	39	Controller of Rapid since 1976 and Assistant Treasurer of Rapid for more than the past five years	-	1972

(a) Member of the Executive Committee.
(b) Member of the Transaction Review Committee.
(c) Member of the Audit Committee

There are no family relationships among any of the directors or executive officers of Rapid, except that Ira D. Riklis, Marcia Riklis and Mona R. Ackerman are Meshulam Riklis' children and Carl H. Lindner, III and S. Craig Lindner are brothers.

The term of office of each director expires at the next annual meeting of Rapid's stockholders or when such director's successor is elected and has duly qualified. There are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which such person was selected as a director of Rapid. For a description of the proposed agreement between Riklis Family Corporation and AFC regarding the voting of their shares of Rapid Common Stock for directors of Rapid, see Item 4 - "Security Ownership of Certain Beneficial Owners and Management". There are no standard arrangements for compensating members of the Board of Directors. Members of the Transaction Review Committee receive $25,000 per annum for serving as directors and members of such Committee. In addition, Mona R. Ackerman, Ira D. Riklis and Marcia Riklis receive $90,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. Each of the executive officers of Rapid holds office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which such person was selected as an executive officer of Rapid.

During the past five years, neither Rapid nor any of its officers or directors has been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors). Except as set forth in Item 3 - "Legal Proceedings - Securities and Exchange Commission", during the past five years, neither Rapid nor any of its officers or directors was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction whereby such party was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

Item 10. Management Remuneration and Transactions.

The following table sets forth for the fiscal year ended January 31, 1981 the remuneration of the five most highly compensated executive officers and directors of Rapid and the remuneration of all directors and officers as a group.

Name of individual or number of persons in group	Capacities in which served	Salaries, fees, directors' fees, commissions, and bonuses	Securities or property, insurance benefits or reimbursement, personal benefits (1)	Aggregate of contingent forms of remuneration (2)
Meshulam Riklis	Chairman of the Board, President and Chief Executive Officer of Rapid and a Vice Chairman of McCrory	$ 585,680	$ 22,409	-
Isidore A. Becker	Chairman of the Board, and Chief Executive Officer of Schenley and a Vice Chairman of Rapid	525,000	20,040	$ 1,432
Leonard C. Lane	Executive Vice President of Rapid and Chairman of the Board of ILC	480,000	21,768	37,872
Ben Litwak	Chairman and Chief Executive Officer of McCrory Stores Division	426,309	5,878	3,363
Howard S. Feldman	President and Chief Operating Officer of Schenley	375,000	8,768	-
All directors and officers as a group (22)		3,836,000	235,269	48,109

(1) Primarily insurance benefits.
(2) The amounts shown are primarily for contractual retirement allowance expense and do not include contributions to the defined benefit pension plans of Rapid and its subsidiaries.

Of the 22 directors and officers as a group, 12 participate in pension plans sponsored by subsidiaries of Rapid. Mr. Riklis and eight others participate in a McCrory corporate plan, Messrs. Becker and Feldman participate in a Schenley plan and Mr. Litwak participates in a McCrory Stores plan. All of these plans are "career-average" salary plans in which the annual benefit is determined by a summation of a certain percentage of compensation for each year of credited service.

The McCrory corporate plan is a non-contributory defined benefit pension plan. This plan is in the process of being amended effective January 1, 1981 to provide for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $124,500. The estimated annual benefit payable at retirement at normal retirement age as a straight life annuity to Mr. Riklis is $124,500. His current remuneration covered by this plan is $380,531 and his credited years of service as of January 31, 1981 is 25 years.

The Schenley plan is a non-contributory defined benefit pension plan. This plan has been amended effective January 1, 1980 to provide for benefits equal to 1% of 1975-1979 average compensation not in excess of $13,000 plus 1.5% of such average compensation in excess of $13,000 for each year of participation up to January 1, 1980 plus 1.2% of compensation up to the Social Security Wage Base and 1.7% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. The compensation covered by this plan is base salary. The maximum annual benefit currently provided under this plan is $124,500. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Messrs. Becker and Feldman are $108,080 and $83,960, respectively. The current remuneration covered by this plan for Messrs. Becker and Feldman is $350,000 and $300,000, respectively, and their credited years of service as of January 31, 1981, are 10 and 20 years, respectively.

The McCrory Stores plan is a non-contributory defined benefit pension plan. This plan is in the process of being amended effective January 1, 1981 to provide for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $50,000. The estimated annual benefit payable at retirement, as a straight life annuity to Mr. Litwak is $50,000, who reached normal retirement age in July 1980 and will not accrue any additional benefits under this plan.

The following table sets forth the estimated annual benefits payable upon normal retirement to persons in specified remuneration and years-of-service classifications. The retirement benefits are based upon retirement at age 65 under current benefit formulas and payment of a single-life annuity to the employee using the 1981 level of Social Security benefits.

Covered Earnings During Each Year of Employment	Years of Service and Annual Pension Plan Benefits (In Thousands)											
	10 Years			20 Years			30 Years			40 Years		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
$100,000..	$ 13	$ 15	$ 13	$ 27	$ 31	$ 27	$ 40	$ 46	$ 40	$ 54	$ 62	$ 50
200,000..	28	32	28	57	65	50	85	97	50	114	124	50
300,000..	43	49	43	87	99	50	124	124	50	124	124	50
400,000..	58	66	50	117	124	50	124	124	50	124	124	50
500,000..	73	83	50	124	124	50	124	124	50	124	124	50
600,000..	88	100	50	124	124	50	124	124	50	124	124	50

(1) McCrory corporate plan.
(2) Schenley plan.
(3) McCrory Stores plan.

The benefits shown above are not subject to any deduction for Social Security or other benefits. In addition to the benefits available upon retirement at age 65, these plans also provide for pre-retirement surviving spouse benefits, disability and early retirement benefits, and for vesting upon completion of 10 years of service.

The following table sets forth at January 31, 1981 the maximum estimated retirement benefits (including contractual obligations) payable to the persons and group specified in the remuneration table above:

Name of individual or number of persons in group	Estimated annual retirement benefits: Pension Plans	Employment Contracts	Total
Meshulam Riklis	$124,500	-	$124,500
Isidore A. Becker	108,080	$ 6,920	115,000
Ben Litwak	50,000	40,000	90,000 *
Howard S. Feldman	83,960	-	83,960
Leonard C. Lane	-	60,000	60,000
All directors and officers as a group (22)	709,620	150,540	860,160

* Contract effective as of February 1, 1981.

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles, aircraft and hotel accommodations and provides for certain club memberships.

Employment Agreements

The descriptions which follow of the employment agreements with Messrs. Riklis, Becker, and Lane reflect the modifications required by a Court-approved settlement in a stockholders' derivative action; see Item 3 - "Legal Proceedings - Litigation Related to Compensation and Other Matters".

Meshulam Riklis

Effective November 20, 1977, Rapid renewed its employment contract with Mr. Riklis, as Chief Executive Officer, for an additional period of five years. The contract provides for an annual salary of $375,000, plus incentive compensation at the rate of 1% of Rapid's Consolidated After-Tax Operating Earnings (as defined) in each fiscal year, in excess of $20,000,000, up to a maximum of $100,000,000 per year. Such $375,000 annual salary is payable in any event, even if Mr. Riklis' employment is terminated by death, disability or discharge with or without cause. This contract superseded all previous contracts, with the exception of a contract with McCrory, which provides that under certain circumstances Mr. Riklis would receive from McCrory a retirement allowance of $15,000 per year. The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of $100,000 per year, and upon Mr. Riklis' death, payments will continue to his surviving widow, if any, at the rate of $50,000 per year for her life; any pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, and are reduced by the receipt of disability payments. As a condition to such retirement payments Mr. Riklis must be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Riklis and his surviving wife forfeit their retirement benefits if, within one year after termination of employment, Mr. Riklis engages directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event of the termination of his employment because of his incapacity, Mr. Riklis is to receive disability benefits at the rate of $100,000 per year for life, less any amounts earned from other employment; in the event of his death, his widow or his surviving children or his estate is to receive death benefits of $500,000, plus one year's incentive compensation (in addition to the incentive compensation earned by, but not yet paid to, Mr. Riklis prior to his death) payable over a 10 year period.

Pursuant to a consulting agreement without a stated maturity which took effect in February 1975, Mr. Riklis was receiving $10,000 per month from Kenton prior to the Merger, and after the Merger such arrangment continues in effect.

Isidore A. Becker

Effective as of August 1, 1975, Mr. Becker, Chairman of the Board and Chief Executive Officer of Schenley, entered into a five-year employment contract with Schenley which was automatically renewed for an additional period of five years ending July 31, 1985. The contract superseded all other employment contracts between Mr. Becker and Rapid or McCrory. The contract

provides for an annual salary of $350,000 per annum and has no provision for deferred compensation. Effective October 19, 1978, the contract was amended to provide for incentive compensation at the rate of 5% of Schenley's annual Operating Profits (as defined), in each fiscal year commencing February 1, 1978, in excess of $53,000,000, up to a maximum of one-half of Mr. Becker's annual salary (presently $350,000). The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Becker's employment for any reason at the rate of $115,000 per year; upon Mr. Becker's death, the retirement payments will continue to his surviving widow, if any, at the rate of $57,500 per year for her life. Any pension plan benefits are deducted from these retirement payments. The payments to Mr. Becker are subject to his availability to render advisory services to Schenley to the extent permitted by his health for a period of up to 12 business days a year and are reduced by receipt of disability payments. In the event of the termination of Mr. Becker's employment because of his incapacity, he is to receive disability benefits at the rate of $75,000 per annum for life. Additionally, his widow or his estate is to receive payments of $375,000, payable over a 10 year period, after his death.

Leonard C. Lane

Mr. Lane, Vice Chairman of the Board of Rapid, is employed as a senior executive officer under an employment contract with Rapid which was renewed for a period of five years effective February 1, 1979, and provides for an annual salary of $240,000. Effective October 19, 1978, the contract was amended to provide for incentive compensation in each year, commencing January 1, 1978, to the extent of (i) 10% of the annual Operating Profits (as defined) of ILC, in excess of $885,544, and commencing January 1, 1979 and (ii) 2-1/2% of the Depreciation (as defined) of ILC Services, the equipment leasing division of ILC, up to a maximum of Mr. Lane's annual salary (presently $240,000). The contract also provides for the payment of a retirement allowance for life following the termination of his employment at the rate of $60,000 per year; certain pension plan benefits are deducted, and payments are subject to other limits and restrictions on competition with Rapid, and are reduced by receipt of disability payments. As a condition to such retirement payments, Mr. Lane must be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Lane forfeits his retirement benefits if, within one year after termination of employment, he engages directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event that Mr. Lane becomes incapacitated for 11 consecutive months, Mr. Lane's employment may be terminated, in which event, he is to receive disability benefits at the rate of $60,000 per year for life, less any amounts earned from other employment; in the event of his death, his widow or his surviving children, if any, or his estate is to receive death benefits of $335,000, payable over a 10 year period. Mr. Lane is authorized to devote a reasonable amount of business time to his personal investments and to consultation in the public or private educational field. Under the contract, Mr. Lane has earned an aggregate of $336,250 in deferred compensation as of January 31, 1981. Pursuant to the settlement of a stockholders' derivative action (see Item 3 - "Legal Proceedings-Litigation Related to Compensation and Other Matters" above), Mr. Lane relinquished the right to $45,000 in annual deferred compensation under the contract for a five year period commencing April 1978.

Ben Litwak

Mr. Litwak is employed by McCrory as Chief Executive Officer of its McCrory Stores Division through January 31, 1983 under a contract effective February 1, 1981 at an annual salary of not less than $200,000. The contract supersedes all other employment contracts between Mr. Litwak and McCrory. Mr. Litwak also receives incentive compensation at the rate of 1% of the before-tax earnings (as defined) of the McCrory Stores Division in excess of $20,000,000 for each fiscal year up to a maximum incentive compensation of $300,000 in each fiscal year. Deferred compensation earned before August 1, 1980 under a prior employment agreement totalling $62,500 will be paid to Mr. Litwak, or after his death to his designees or estate, in 30 equal instalments beginning when his employment ends. If Mr. Litwak becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated. The contract provides for the payment of a retirement allowance to Mr. Litwak of $90,000 a year for life beginning after the termination of his employment, less certain pension payments. Upon Mr. Litwak's death during or after the termination of his employment by McCrory, his present wife, if she survives him, will be paid a retirement allowance of $45,000 a year during her lifetime, less certain pension payments. If Mr. Litwak dies while employed, his base salary for six months will be paid in 60 equal instalments to his present wife, if she survives him, or to certain other persons if she does not. All unpaid incentive compensation, deferred compensation, retirement benefits and death benefits are forfeited by all persons if Mr. Litwak within one year after the termination of his employment engages directly or indirectly in any activity competitive with the McCrory Stores Division or if Mr. Litwak is discharged for serious misconduct.

Howard S. Feldman

Mr. Feldman, President and Chief Operating Officer of Schenley, is employed under an employment contract with Schenley which has been renewed for a two year period effective February 28, 1981, subject to the right of Mr. Feldman, under certain circumstances, to extend the term of the contract to February 28, 1985. Mr. Feldman has the right, under prescribed circumstances, to terminate his obligation to render full time employment and thereupon Mr. Feldman is to serve as a consultant to Schenley until the expiration of the then term of the contract. During the consultation period, Mr. Feldman is restricted from engaging in competitive activities and is required to be available for consultation to Schenley for not more than 12 days in any quarterly period. Mr. Feldman's salary is at the rate of not less than $300,000 per year, except that during the consultation period it is reduced to $150,000 per year. In the event of Mr. Feldman's disability for a period of at least nine consecutive months, Schenley may reduce Mr. Feldman's salary by one half. The contract provides for the payment, upon Mr. Feldman's termination of employment, of a retirement allowance for life at the rate of $65,000 per year, one half of such amount to be paid to Mr. Feldman's surviving widow, if any, for her life if Mr. Feldman dies after termination of his employment. All retirement payments (a) are to be reduced by the annual amount to which Mr. Feldman or his wife becomes entitled pursuant to any pension, retirement or similar plan of Schenley and (b) are conditioned on Mr. Feldman not engaging in any competitive activity and being available for consultation for not more than 12 days a year. The contract also provides for

a death benefit, in the event Mr. Feldman dies while employed by Schenley, in the sum of $350,000, payable in 10 equal annual instalments. For a period of two years after the termination of Mr. Feldman's employment, he may not participate in the ownership or the operation of any competitive business or employ any individual who was employed by Schenley or its subsidiaries at any time during the two year period prior thereto.

Harold S. Divine

Mr. Divine, a Vice Chairman of the Board of Rapid and a director of McCrory, is employed as a senior executive under a five year employment contract with McCrory effective February 1, 1980. The contract provides for an annual salary of not less than $300,000. The contract also provides for the payment of an annual retirement allowance for life of $70,000 if Mr. Divine's term of employment expires on January 31, 1985 or is terminated at any time by reason of his disability. Upon Mr. Divine's death the retirement payments will continue to his surviving widow, if any, at a rate equal to 50% of his retirement allowance. McCrory may, in its discretion, terminate the retirement allowance of Mr. Divine and his surviving wife if, within two years after termination of Mr. Divine's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Divine is discharged for serious misconduct. Certain pension plan benefits and disability payments would be deducted from the retirement allowance. If Mr. Divine becomes incapacitated for a period of 11 consecutive months, the contract provides for disability payments of $70,000 per year. Additionally, in the event of Mr. Divine's death an amount equal to 125% of his annual base salary at the time of his death would be payable over a 10 year period to his widow or his estate. Mr. Divine is authorized to devote a reasonable amount of business time to his personal business, consisting of a wholly-owned sales and marketing company, engaged in the distribution of various consumer products to third parties who are unaffiliated with Rapid or any of its respective subsidiaries, and in the management of his personal investments.

Arie Genger

Mr. Genger, President, Chief Operating Officer and director of McCrory and an Executive Vice President and director of Rapid, entered into a contract with McCrory, effective February 1, 1980, to be employed as an executive through January 31, 1987, at an annual salary of not less than $200,000, which increases by $25,000 at the end of each two year period during the initial term of the contract. McCrory is obligated under the contract to pay Mr. Genger a bonus of not less than $35,000 for each of the two fiscal years ending January 31, 1981 and 1982, and not less than $10,000 for the fiscal years ending January 31, 1983 and January 31, 1984. The contract is automatically renewable for two periods of five years through January 31, 1997, unless 12 months' prior notice of intention not to renew is given by either party prior to the end of the initial seven year term or the extended five year term. In the event Mr. Genger's employment is terminated because of incapacity, he is to receive $50,000 per year for life, which will be adjusted for cost of living increases and reduced by any payments under McCrory's disability plan. The contract provides for a retirement allowance

ranging from $45,000 to $80,000 depending upon the length of Mr. Genger's employment, reduced by any pension payments. In the event Mr. Genger dies while he is employed or while he is receiving the retirement allowance, Mr. Genger's widow would receive 50% of the retirement allowance during her lifetime. Mr. Genger and his surviving wife forfeit their retirement benefits if within one year after termination of employment, Mr. Genger engages directly or indirectly in any business competitive with the business of McCrory or any of its affiliated companies or if Mr. Genger is discharged for serious misconduct. In addition, McCrory is required to keep in effect $2,000,000 of life insurance on Mr. Genger's life through January 1987, at which time Mr. Genger or his designee can acquire the policy. The beneficiary of such policy is designated by Mr. Genger. To acquire the policy, Mr. Genger or his designee would be obligated to deliver to McCrory a promissory note in the amount of approximately $81,000 payable January 10, 1989, and designate McCrory as beneficiary of the policy to the extent of approximately $92,000.

Daniel J. Manella

Mr. Manella, an Executive Vice President and director of Rapid, is employed by McCrory pursuant to an arrangement effective February 1, 1981, to be employed as a senior executive through January 31, 1989. All prior contracts with Rapid have been terminated, except that deferred compensation of $100,000 under a 1976 employment agreement with Rapid will be paid in 60 equal instalments beginning when Mr. Manella's employment ends or when he becomes 60 years of age, whichever occurs first. The arrangement provides for an annual salary of not less than $350,000 a year and a bonus of $1,000,000 payable in five annual instalments of $200,000 each from 1981 to 1985. If Mr. Manella dies before the entire bonus has been paid, the remaining instalments will be paid to his designees or to his estate. If Mr. Manella terminates his employment before February 1, 1985, with or without cause, the remaining instalments of the bonus are forfeited. If Mr. Manella becomes incapacitated for a period of at least 11 consecutive months, and his employment is terminated, he will receive disability benefits of $5,000 a month until his death or recovery, less disability payments under any disability benefit plans. If Mr. Manella dies while employed and is survived by his present wife, she will receive monthly retirement benefits of $2,600 a month beginning when Mr. Manella dies or when he would have become 60 years of age, (whichever happens later) until her death, less any pension plan benefits. Mr. Manella forfeits any remaining bonus payments and disability benefits, and his wife forfeits her monthly retirement benefits, if Mr. Manella within two years after termination of his employment engages directly or indirectly, in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Manella is discharged for serious misconduct. In the near future, McCrory and Mr. Manella anticipate entering into a written agreement reflecting the foregoing terms.

Bernard J. Blaney

Mr. Blaney, Vice President - Finance and a director of McCrory and Vice President and Treasurer of Rapid, entered into a contract with McCrory effective July 1, 1980, to be employed as an executive through June 30, 1985, which is automatically renewable for an additional period of five years unless

six months' prior notice of intention not to renew is given by either party. The contract provides for an annual salary of not less than $175,000. If Mr. Blaney becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated, in which event he is to receive disability benefits at the rate of $50,000 per year, subject to certain reductions, until his 65th birthday. The contract also provides for the payment of a retirement allowance of $40,000 per year, less pension benefits, for life commencing at age 65 (or earlier upon disability), if the term of employment ends on June 30, 1985. In the event the contract is renewed for an additional period of five years the retirement allowance is increased to $50,000 per year. Upon Mr. Blaney's death his widow is to receive 50% of the retirement allowance during her lifetime. McCrory may, in its discretion, terminate the retirement allowance of Mr. Blaney and his surviving wife if, within one year after termination of Mr. Blaney's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Blaney is discharged for serious misconduct. If Mr. Blaney dies prior to termination of his employment, a payment equal to his then annual salary is to be made to a person Mr. Blaney designates in writing or, absent such a designation, to his estate.

Certain Transactions and Other Matters

Mr. Riklis and his children, Mona R. Ackerman, Marcia Riklis and Ira D. Riklis, own all of the capital stock of KGA Industries, Inc. ("KGA"), and Mona R. Ackerman and Marcia Riklis are directors of KGA. KGA is a manufacturer of ladies handbags and belts. In calendar year 1980, purchases by Lerner and another subsidiary of McCrory of merchandise from KGA, all of which were made in the ordinary course of business, totalled approximately $71,000 (which constituted approximately 2% of KGA's sales for such year). In the opinion of management, the purchases of merchandise from KGA were made at prices comparable to those that would obtain in similar transactions with unrelated parties.

In connection with the termination on January 31, 1978 of two shopping center leases by McCrory and Lerner in Springfield, Virginia, the lessor, Franconia Associates ("Franconia"), a partnership in which Mr. Riklis is the principal partner, became indebted to McCrory for $308,903 and to Lerner for $110,347. As of January 31, 1981, the indebtedness to McCrory and Lerner was $251,307 and $89,738, respectively, payable in 36 constant quarterly payments, bearing interest at the rate of 6% per annum.

In July 1976, Mona R. Ackerman, Marcia Riklis and Ira D. Riklis acquired substantially all of the beneficial interest in a shopping mall located in Phoenix, Arizona. The mall, which contains approximately 595,000 square feet of floor space, includes a McCrory variety store occupying approximately 31,350 square feet of floor space with a minimum annual rental of $44,000, and a Lerner store occupying approximately 9,400 square feet (reduced from 13,700 square feet on September 1, 1979) of floor space with a minimum annual rental of $21,232. The leases were each entered into during 1963, expire in 1983 and contain two five year renewal options. The respective leases provide that McCrory and Lerner pay a proportionate share of taxes and operating expenses. In addition, the McCrory and Lerner leases provide for additional payments of 4% of gross sales (as defined), less the minimum annual

rent, taxes and operating expenses. During the year ended January 31, 1981, McCrory's aggregate rental payment was approximately $74,000 and Lerner's aggregate rental payment was approximately $35,000. Such rentals constituted approximately 6% of the gross rental income of the shopping mall for such year. Those leases, which were entered into before Mr. Riklis' children acquired their beneficial interest in the shopping mall, are, in the opinion of the respective managements of McCrory and Lerner, on terms comparable to those prevailing generally for similar space in the area.

Effective April 1, 1981, Whimsy, Incorporated ("Whimsy"), a subsidiary of McCrory, assigned leases on five of its retail stores which had previously been closed to Specialty Store Group, Inc. ("Specialty"), a corporation whose principal stockholder and chief executive officer is Ira D. Riklis. In addition, Whimsy granted an exclusive license to Specialty to use Whimsy's trademarks and trade names and leased to Specialty the equipment located in the five Whimsy stores and certain other equipment used in the Whimsy operation. In consideration therefor, Specialty agreed to pay to Whimsy a fee of 8% of its gross sales (as defined) from the five Whimsy stores, 4% of gross sales from any other stores hereafter operated by Specialty under the Whimsy name, together with 4% of the gross sales of any products sold under the Whimsy name at other locations. In connection with such transaction, Rapid loaned Specialty $500,000 which is repayable in five annual instalments of $25,000, $50,000, $75,000, $100,000 and $250,000, respectively, bearing interest at the prime rate payable quarterly.

On February 21, 1981, Rapid acquired an option (the "Option") for $200,000 from Hamilton Corporation ("Hamilton") to purchase all of the capital stock of American Recreation Group, Inc. ("ARG") for $6,000,000, the payment of ARG's bank indebtedness in the principal amount of $5,000,000 plus interest thereon during the period from February 1, 1981 to October 31, 1981 (the "Bank Indebtedness"), and the payment of two ARG notes (the "Notes") to corporations wholly-owned by Mr. Riklis, the principal amounts of which are to be equal to the earnings, if any, ARG achieves during the period February 1, 1981 to October 31, 1981. Mr. Riklis and his children own 49% of the capital stock of Hamilton, and, prior to its purchase by Hamilton, Mr. Riklis owned all of the capital stock of ARG through a wholly-owned corporation. Hamilton acquired the capital stock of ARG on February 2, 1981 for $6,000,000, evidenced by a promissory note payable on October 31, 1981, and guaranteed the payment of the Bank Indebtedness and the Notes. The Option has to be exercised on or before June 15, 1981 for a closing on October 31, 1981. Rapid secured its obligations under the Option with a transferrable irrevocable letter of credit in the amount of $6,800,000, and Hamilton pledged all of the capital stock of ARG to Rapid to secure its obligations under the Option. The Transaction Review Committee of Rapid's Board of Directors has been given the responsibility of determining whether Rapid should exercise the Option, and has engaged an independent financial advisor to assist it.

A corporation of which Abraham G. Levin, a director of Rapid, is the Chief Executive Officer and principal stockholder, entered into a consulting contract with Rapid effective February 1, 1981 through January 31, 1985 for services relating to non-legal matters. The contract provides for an annual consulting fee of $300,000, which would continue to be paid for the four year period if Mr. Levin ceases to be Chief Executive Officer of such corporation by reason of death or permanent disability.

Messrs. Rubin Baum Levin Constant & Friedman, general counsel to Rapid, of which Abraham G. Levin is the senior partner, subleases approximately 20,000 square feet of office space from Rapid at 645 Fifth Avenue, New York, New York, at a per square foot rental which is less than the rental which Rapid is obligated to pay under its lease.

McCrory Stores leases certain properties from wholly-owned corporations of the McCrory Stores Pension Plan. Pursuant to such leases, during the year ended January 31, 1981, rentals of approximately $700,000 were paid.

During the year ended January 31, 1981, Lerner paid to the Lerner's Employees Retirement Trust rentals of approximately $54,000, covering three locations leased by Lerner. Lerner at its option may purchase, or at the option of said Trust may be required to purchase, the premises under lease for a total of approximately $900,000. Of this amount, approximately $800,000 applies to two locations previously sold to said Trust by Lerner at the same price.

During the year ended January 31, 1981, Otasco paid to the Otasco Employees Retirement Trust rentals of approximately $293,000 covering locations leased by Otasco from such Trust.

In the opinion of management, the terms of the leases referred to in the preceding three paragraphs are comparable to those prevailing generally for similar space in the areas in which such properties are located.

For a description of certain indebtedness of Messrs. Riklis, Becker and Lane to Rapid, which arose out of the settlement of a stockholders' derivative action see Item 3 - "Legal Proceedings - Litigation Related to Compensation and Other Matters."

On March 1, 1979, Kenton entered into agreements with Messrs. Harold S. Divine and Daniel J. Manella, directors of Rapid, pursuant to which Kenton issued to each such person 25,000 shares of Kenton Common Stock, respectively, for a purchase price of $14.25 per share. Each paid $250 in cash for his shares and delivered to Kenton a promissory note for the balance of the purchase price, which note was initially payable June 30, 1980 and bears interest at a rate of 6% per annum. As security for the note, each of such persons has assigned to Kenton the proceeds of life insurance policies in an amount equal to at least the lesser of the unpaid balance of his note or $250,000. Rapid is now paying the premiums on such policies. As an incentive for such persons to continue serving as executive officers of Kenton, Kenton agreed that if the earnings of Kenton in future years attain certain specified levels Kenton would defer the payment dates under the notes, forgive all or a portion of such payments, grant bonuses in the amount of the principal forgiven, or permit payment of the notes by the delivery to Kenton of the number of shares issued. As a result of Kenton's earnings during fiscal 1979, $70,000 of indebtedness under each note was forgiven, each became entitled to a cash bonus of $70,000, and the payment date of principal and interest of each note was deferred until June 30, 1982. Upon consummation of the Merger (see "Introductory Note" above), the shares of Kenton common stock owned by Messrs. Divine and Manella were converted into subordinated notes of Rapid payable in three annual instalments (25%, 35% and 40%, respectively), commencing on January 31, 1982, and bearing interest payable quarterly at the

rate of 10% per annum. As of January 31, 1981, Messrs. Divine and Manella were each indebted to Rapid in the amount of $286,250. In view of the Merger, the parties are discussing a modification of such indebtedness and the bonus arrangement.

PART IV

Item 11. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) See Index to Financial Statements and Schedules on Page F-1.

(b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended January 31, 1981.

(c) See Index to Exhibits on Page E-1.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By /S/ B. J. BLANEY
Bernard J. Blaney
Vice President and Treasurer

Dated: April 30, 1981

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Principal Executive Officer:

Meshulam Riklis
Chairman of the Board

Principal Financial and Accounting Officer:

Bernard J. Blaney
Vice President and Treasurer

Directors:

Mona R. Ackerman
Isidore A. Becker
Harold S. Divine
Arie Genger
Seymour Kleinman
Leonard C. Lane
Abraham G. Levin
Carl H. Lindner, III
S. Craig Lindner
Robert C. Lintz
Daniel J. Manella
Dan Palmon
Ira D. Riklis
Marcia Riklis
Meshulam Riklis
Leo D. Stone
Helen H. Updike

By /S/ STUART H. AARONS
Stuart H. Aarons
Attorney-in-fact

Dated: April 30, 1981

Original powers of attorney authorizing Bernard J. Blaney and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of certain directors and officers of the Registrant have been filed with the Securities and Exchange Commission.

RAPID-AMERICAN CORPORATION

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

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Statements of Consolidated Income for the Years Ended January 31, 1981, 1980 and 1979	F-5
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Schedules

II -	Amounts Receivable from Related Parties, Underwriters and Promoters, and Employees Other Than Related Parties for the Three Years Ended January 31, 1981	S-1
III -	Investment in, Equity in Earnings of, and Dividends Received from Related Parties for the Three Years Ended January 31, 1981	S-2
IV -	Indebtedness of and to Related Parties - Not Current - for the Three Years Ended January 31, 1981	S-4
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VI -	Accumulated Depreciation and Amortization of Property, Plant and Equipment for the Three Years Ended January 31, 1981	S-9
VIII -	Valuation and Qualifying Accounts for the Three Years Ended January 31, 1981	S-11

Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

Deloitte Haskins+Sells

One World Trade Center
New York, New York 10048

To the Board of Directors of
Rapid-American Corporation:

We have examined the consolidated financial statements and supplemental schedules of Rapid-American Corporation and its consolidated subsidiaries, listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect revenues constituting 28%, 28% and 29%, respectively, of consolidated revenues for the years ended January 31, 1981, 1980 and 1979. Such financial statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such consolidated subsidiaries, is based solely upon the reports of the other auditors.

As discussed in Note 16 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. It is not possible to predict the ultimate outcome of such actions and claims.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the actions and claims referred to in the preceding paragraph been known, and based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of the companies at January 31, 1981 and 1980 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for compensated absences as discussed in Note 20. Also, in our opinion, the supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS

March 27, 1981

Ernst & Whinney

153 East 53rd Street
New York, New York 10022

212/888-9100

To The Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the following consolidated financial statements and related schedules of Lerner Stores Corporation and subsidiaries (none of which is presented separately herein):

Consolidated Statements of Income for the years ended January 31, 1981, 1980 and 1979

Consolidated Balance Sheets as of January 31, 1981 and 1980

Consolidated Statements of Stockholder's Equity for the years ended January 31, 1981, 1980 and 1979

Consolidated Statements of Changes in Financial Position for the years ended January 31, 1981, 1980 and 1979

Schedules for the three years ended January 31, 1981:
V--Property, Plant and Equipment
VI--Accumulated Depreciation and Amortization of Property, Plant and Equipment

Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Lerner Stores Corporation and subsidiaries at January 31, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended January 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules listed above present fairly the information set forth therein in compliance with the applicable accounting regulation of the Securities and Exchange Commission.

ERNST & WHINNEY

New York, New York
March 26, 1981

samson,
bélair
& associés

COMPTABLES AGRÉÉS
CHARTERED ACCOUNTANTS

REPORT OF CHARTERED ACCOUNTANTS

To Schenley Canada Inc.

We have examined the consolidated financial statements of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1981 and 1980 and for each of the three years in the period ended January 31, 1981 and the schedules for the three years ended January 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examinations, the consolidated balance sheets and statements of consolidated income and retained earnings and of changes in consolidated financial position (all of which are not presented separately herein) present fairly the financial position of Schenley Canada Inc. and its wholly-owned subsidiary companies as at January 31, 1981 and 1980 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1981 in conformity with generally accepted accounting principles applied on a consistent basis; and the schedules for the three years ended January 31, 1981 (which are included in the consolidated schedules listed in the accompanying index and are not presented separately herein), when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

SAMSON, BELAIR & ASSOCIES

Chartered Accountants

Montreal, March 6, 1981

QUÉBEC - MONTRÉAL - OTTAWA - TORONTO - CALGARY - VANCOUVER
RIMOUSKI - TROIS-RIVIÈRES - SHERBROOKE - SAINT-HYACINTHE - KITCHENER
SEPT-ILES - MATANE - COATICOOK - FORT LAUDERDALE (U.S.A.)

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Year Ended January 31, 1981	1980	1979
	(In Thousands, Except Per Share Amounts)		
REVENUES:			
Net sales	$2,588,674	$2,603,865	$2,474,916
Other - net	14,556	9,186	6,099
	2,603,230	2,613,051	2,481,015
COSTS AND EXPENSES:			
Cost of goods sold	1,863,508	1,866,936	1,774,558
Selling, general and administrative expenses	539,296	530,337	488,178
Interest and debt expense	117,607	122,588	111,267
Depreciation and amortization	32,377	29,857	28,585
	2,552,788	2,549,718	2,402,588
INCOME BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY CREDITS	50,442	63,333	78,427
PROVISION FOR INCOME TAXES	22,876	28,730	41,185
INCOME BEFORE EXTRAORDINARY CREDITS	27,566	34,603	37,242
EXTRAORDINARY CREDITS:			
Utilization of loss carryforwards and tax credits	-	-	4,844
Gain on debenture exchanges - net of tax	-	-	2,347
NET INCOME	27,566	34,603	44,433
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS	9,307	3,616	1,809
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 18,259	$ 30,987	$ 42,624
INCOME PER SHARE OF COMMON STOCK:			
Primary:			
Income before extraordinary credits	$3.55	$4.55	$4.52
Extraordinary credits	-	-	.82
Net income	$3.55	$4.55	$5.34
Fully Diluted:			
Income before extraordinary credits	$3.38	$4.02	$3.92
Extraordinary credits	-	-	.66
Net income	$3.38	$4.02	$4.58

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1981	January 31, 1980
	(In Thousands)	
CURRENT ASSETS:		
Cash	$ 29,507	$ 24,487
Temporary investments, at cost which approximates market	57,232	34,330
Trade receivables, less allowances ($3,879,000 and $5,008,000)	178,273	210,358
Inventories	577,178	619,488
Other receivables, prepaid expenses, etc.	41,274	40,909
Total current assets	883,464	929,572
INVESTMENTS AND ADVANCES:		
Otasco Credit Corporation, at equity	16,964	15,582
Other investments, etc., substantially at equity	18,377	16,994
Total investments and advances	35,341	32,576
PROPERTY, PLANT AND EQUIPMENT:		
Land	11,907	9,021
Buildings, store properties and warehouses	137,790	110,249
Furniture, fixtures and leasehold improvements	255,670	244,234
Machinery and equipment	96,334	89,248
Total - at cost	501,701	452,752
Less accumulated depreciation and amortization	239,771	224,861
	261,930	227,891
Capital leases, less accumulated amortization	54,876	66,528
Property, plant and equipment - net	316,806	294,419
OTHER ASSETS:		
Excess of cost of investments over related equities, less accumulated amortization ($31,448,000 and $27,309,000)	247,032	252,534
Franchises, less accumulated amortization ($3,314,000 and $2,916,000)	46,686	47,084
Trademarks	2,939	3,157
Deferred charges, mortgages and sundry	29,417	28,387
Total other assets	326,074	331,162
TOTAL	$1,561,685	$1,587,729

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND EQUITY	January 31, 1981	January 31, 1980
	(In Thousands)	
CURRENT LIABILITIES:		
Accounts payable	$ 162,636	$ 121,710
Accrued expenses and sundry	182,455	150,107
Accrued Federal and foreign income taxes	40,268	47,061
Short-term debt	1,850	-
Current maturities of long-term debt	20,196	8,151
Capital lease obligations	8,220	9,530
Total current liabilities	415,625	336,559
LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT	855,170	782,729
OTHER NON-CURRENT LIABILITIES:		
Capital lease obligations	75,729	85,420
Deferred income taxes	72,414	65,592
Reserves for store closings	18,151	23,369
Other	34,127	34,285
Total other non-current liabilities	200,421	208,666
MINORITY INTEREST IN SUBSIDIARIES	15,526	16,028
$3.00 REDEEMABLE PREFERENCE STOCK (Aggregate Redemption Value, $66,795,000)	-	53,476
PREFERRED AND COMMON STOCKHOLDERS' EQUITY:		
Capital stock:		
Preferred stocks (aggregate liquidation preference $11,788,000 and $8,764,000)	1	3,690
Common stock, $.01 and $1.00 par value, authorized 2,435,607 shares and 50,000,000 shares, issued 2,435,607 shares and 5,098,171 shares	24	5,098
Additional paid-in capital	71,502	132,840
Retained earnings	3,416	48,643
Total preferred and common stockholders' equity	74,943	190,271
TOTAL	$1,561,685	$1,587,729

See Notes to Financial Statements.

STATEMENTS OF CONSOLIDATED PREFERRED AND COMMON STOCKHOLDERS' EQUITY

	Convertible Preferred Stocks $3.00 Issue	Convertible Preferred Stocks $3.15 Issue	Convertible Preferred Stocks $2.25 Issue	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)
				(In Thousands)			
Balance, February 1, 1978	$5,956	$343	$529		$7,854	$184,135	$(10,261)*
Net income							44,433
Cash dividends on:							
Preferred stocks							(889)
Common stock ($.40 per share).							(2,986)
Conversion of preferred stocks..	(664)	(3)	(73)		160	580	
Common stock acquired in exchange for debentures and warrants					(931)	(11,399)	
Common stock purchased in odd-lot tender					(10)	(71)	
Warrants issuable in settlement of litigation						750	
Equity in certain transactions of subsidiaries					1	40	(674)
Balance, January 31, 1979	5,292	340	456		7,074	174,035	29,623
Net income							34,603
Cash dividends on:							
$3.00 redeemable preference stock							(2,004)
Preferred stocks							(656)
Common stock ($.60 per share).							(3,864)
Conversion of preferred stocks..	(821)	(77)	(33)		112	819	
Common and preferred stocks acquired in exchange for $3.00 redeemable preference stock	(1,101)	(25)	(341)		(2,052)	(41,488)	(8,429)
Common stock purchased in odd-lot tender					(26)	(489)	
Equity in certain transactions of subsidiaries						29	(590)
Other					(10)	(66)	(40)
Balance, January 31, 1980	3,370	238	82		5,098	132,840	48,643
Net income							27,566
Cash dividends on:							
$3.00 redeemable preference stock							(8,015)
Preferred stocks							(253)
Common stock ($.60 per share).							(3,090)
Conversion of preferred stocks..	(271)	(12)	(71)		132	222	
Redemption of preferred stocks..	(2,900)	(222)	(11)			(249)	(2,875)
Rapid-Kenton merger and warrant exchange offer	(199)	(4)		$ 1	(5,206)	(61,311)	(57,792)
Equity in certain transactions of subsidiaries							(591)
Other							(177)
Balance, January 31, 1981	-	-	-	$ 1	$ 24	$ 71,502	$ 3,416

* Restated (see Note 20).

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1981	1980	1979
		(In Thousands)	
FUNDS PROVIDED:			
Operations:			
Income before extraordinary credits	$ 27,566	$ 34,603	$ 37,242
Items not currently requiring funds:			
Depreciation and amortization (including debt discount and intangibles)	39,623	39,972	38,295
Deferred income taxes	8,126	8,212	10,022
Other - net	1,399	9,469	9,324
Funds provided by operations.	76,714	92,256	94,883
Extraordinary credits and transactions related thereto:			
Utilization of loss carry-forwards and tax credits			4,844
Gain on debenture exchanges			2,347
Related deferred taxes			1,719
Decrease in long-term debt			(4,066)
Increases in long-term debt	154,703	70,654	186,532
Issuance of $3.00 redeemable preference stock		53,436	
Disposals of property, plant and equipment	11,049	6,085	4,933
Acquired working capital of McGregor-Doniger Inc.		3,729	
Other - net	(2,942)	8,373	662
	239,524	234,533	291,854
FUNDS APPLIED:			
Decreases in long-term debt	91,667	111,334	107,285
Additions to property, plant and equipment	56,957	60,289	37,583
Cash dividends	11,358	6,524	3,875
Acquisition of common, preference and preferred stocks and warrants	163,166	53,951	12,411
Acquisition of Kenton - net	24,661		
Decrease in capital lease obligations	10,026	8,320	9,174
Decrease in non-current reserves relating to store closings	6,863	6,857	9,480
Additional consideration for acquisition of subsidiaries			6,090
Investment in McGregor-Doniger Inc.		4,189	
	364,698	251,464	185,898
INCREASE (DECREASE) IN WORKING CAPITAL	$(125,174)	$(16,931)	$105,956

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION (Continued)

	Year Ended January 31, 1981	1980	1979
	(In Thousands)		
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:			
Cash	$ 5,020	$(12,152)	$(20,813)
Temporary investments	22,902	(15,245)	30,575
Trade receivables, less allowances	(32,085)	6,983	(12,446)
Inventories	(42,310)	3,273	15,351
Other receivables, prepaid expenses, etc.	365	2,162	6,579
Accounts payable	(40,926)	(12,400)	(9,324)
Accrued expenses and sundry	(32,348)	(2,477)	(2,276)
Accrued Federal and foreign income taxes	6,793	(1,562)	(8,108)
Short-term debt	(1,850)		110,000
Current maturities of long-term debt	(12,045)	13,261	(2,826)
Capital lease obligations	1,310	1,226	(756)
INCREASE (DECREASE) IN WORKING CAPITAL	$(125,174)	$(16,931)	$105,956

See Notes to Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include (i) Rapid and its divisions, Territory Financial, Leeds Travelwear (phased out during the year ended January 31, 1980) and Rapid Electrotype; (ii) McCrory Corporation and its divisions and subsidiaries, including Lerner Stores Corporation and subsidiaries, Otasco, Inc. and subsidiaries, J. J. Newberry Co. and subsidiaries and all other subsidiaries, exclusive of Otasco Credit Corporation, a non-significant financing subsidiary (see Note 3), which is carried at equity; (iii) Schenley Industries, Inc. and its subsidiaries; (iv) McGregor-Doniger Inc. and its divisions; (v) Anvil Brand, Incorporated and its divisions and subsidiaries; (vi) Rapid-American Menswear, Inc. and its divisions; and (vii) certain other subsidiaries whose assets and operations in the aggregate are not significant.

The consolidated balance sheet at January 31, 1981 includes the assets and liabilities of Kenton Corporation and its subsidiaries, acquired as of January 31, 1981 and accounted for as a purchase (see Note 2).

To facilitate comparisons with the current year, certain amounts in prior years have been reclassified.

Minority interest in consolidated subsidiaries consisted of preferred and preference stocks of subsidiaries not held by Rapid and its subsidiaries.

INVENTORIES

During the year ended January 31, 1979, the last-in, first-out ("LIFO") method of valuing substantially all inventories was adopted. This change was made because management believes the LIFO method more clearly reflects the results of operations by matching current costs with current revenues. The LIFO inventory amount at January 31, 1981, 1980 and 1979 was less than the first-in, first-out inventory amount by approximately $82,800,000, $56,200,000 and $25,400,000, respectively.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $237,083,000, $266,045,000 and $284,292,000, respectively, for the years ended January 31, 1981, 1980 and 1979.

PROPERTY, PLANT AND EQUIPMENT

It is the policy of Rapid and its subsidiaries to provide for depreciation of depreciable properties at rates designed to extinguish the cost thereof over the estimated service lives of the properties. The approximate annual rates of depreciation and amortization, which have been computed generally using the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2 to 20%.
Furniture, fixtures and automobiles	2-1/2 to 33-1/3%.
Machinery and equipment	4 to 33-1/3%.
Leased property and equipment under capital leases	Term of lease.
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less.

Expenditures for maintenance and repairs are charged to income or costs of production as incurred. Expenditures for renewals which extend the estimated service lives of the properties, and the cost of betterments of such properties, are charged to the appropriate fixed asset accounts.

At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES AND FRANCHISES

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $112,733,000 and $113,167,000 at January 31, 1981 and 1980, respectively, has been recognized as being similar in nature to intangibles, which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 5). Franchises which consist of Schenley contracts to import whiskies, liquors, and other distilled spirits, have continuing value and are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $134,299,000 (after accumulated amortization of $31,448,000) at January 31, 1981 and $139,367,000

(after accumulated amortization of $27,309,000) at January 31, 1980 and the portion of franchises, amounting to $12,631,000 (after accumulated amortization of $3,314,000) at January 31, 1981 and $13,029,000 (after accumulated amortization of $2,916,000) at January 31, 1980, acquired subsequent to October 31, 1970 are being amortized using the straight-line method over forty years (see Note 5). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

EXCESS OF NET ASSETS ACQUIRED OVER RELATED COSTS

The excess of net assets acquired over related costs, amounting to $3,016,000 and $4,739,000 at January 31, 1981 and 1980, respectively, (after accumulated amortization and other adjustments of $21,757,000 and $20,034,000, respectively) in the acquisition of J. J. Newberry Co. in 1972, was attributed to property accounts, has been included in accumulated depreciation and amortization, and is being amortized (as a reduction of depreciation) over a ten year period, the estimated useful life of the property.

2. RAPID-KENTON MERGER

On January 31, 1981, Rapid-American Corporation ("Old Rapid") merged into Kenton Corporation ("Kenton"), which as the surviving corporation changed its name to Rapid-American Corporation ("Rapid"). Upon consummation of the merger, holders of Old Rapid common stock and $3.00 redeemable preference stock, other than Kenton and American Financial Corporation and certain of its subsidiaries ("AFC"), received, for each share, $45 principal amount of Rapid 10% subordinated sinking fund debentures due August 1, 2006 ("10% Debentures") together with $.75 in cash, and an additional $2.25 in cash, which represents accrued interest on the 10% Debentures for the period between August 1, 1980 and January 31, 1981. Accordingly, approximately $246,000,000 principal amount of the 10% Debentures was issued and $16,400,000 in cash was paid to such holders upon consumation of the merger.

As a condition precedent to the merger, Old Rapid called for redemption its outstanding shares of $3.00 and $3.15 convertible preferred stocks, 53,342 shares and 3,626 shares, respectively, at a redemption price of $105 plus accrued dividends to March 3, 1981, the date of redemption. Such preferred stockholders had the right, in lieu of accepting the redemption amount, to receive the same consideration as they would have received had they converted their shares into common stock prior to the merger. As a result of the above, $600,000 principal amount of 10% Debentures was issued and $40,000 in cash was paid to such holders.

Kenton stockholders, other than Meshulam Riklis ("Riklis"), Chairman of the Board and Chief Executive Officer of Rapid, two Trusts created by him for the benefit of members of his family (the "Riklis Family Trusts"), AFC, and the officers and directors of Kenton and certain related parties ("Kenton Management"), received for each share of common stock of Kenton and for each share of 6% cumulative preferred stock of Kenton, $22.50 in cash. Kenton management received 10% subordinated notes of Rapid in the principal amount of $22.50 for each share of Kenton common stock. Upon the merger, approximately $14,600,000 in cash was paid and $3,785,000 principal amount of 10% subordinated notes was issued.

In exchange for their respective interests, Riklis and the Riklis family interests received 11,250 shares of new preferred stock and 1,461,364 shares of new common stock and AFC received, 106,625 shares of new preferred stock and 974,243 shares of new common stock.

The merger was accounted for as a purchase by Rapid of Kenton's assets and assumption of its liabilities. The 10% Debentures were issued after provision for original issue discount of 50% of principal amount. The accompanying consolidated balance sheet at January 31, 1981 reflects such transaction together with the warrant exchange offer (see below). The accompanying consolidated income statements reflect the results of operations of Old Rapid only. Had Kenton been acquired on February 1, 1979, the unaudited pro-forma net sales, net income and primary earnings per share of common stock for the years ended January 31, 1981 and 1980 would have been $2,639,000,000, $5,697,000 and $1.50 per share; and $2,658,000,000, $15,439,000 and $5.71 per share, respectively. Unaudited pro-forma ratios of earnings to fixed charges and preferred dividends combined for the years ended January 31, 1981 and 1980 would have been 1.06 and 1.16, respectively.

Prior to the merger, each Old Rapid warrant entitled its holder to purchase one share of Old Rapid common stock at an exercise price of $35 per share. As a result of the merger, the warrants are now exercisable for $45 principal amount of 10% Debentures, together with $3.00 in cash at the same exercise price ($35). The warrants are redeemable, at Rapid's option, at $20 per warrant and expire May 15, 1994. In addition, the indentures relating to Rapid's 7-1/2% sinking fund subordinated debentures, due 1985 and 12% sinking fund subordinated debentures, due 1999, provide that these debentures may be applied at their face amount upon exercise of the warrants.

On February 2, 1981, Rapid offered to exchange $10 principal amount of 10% Debentures, together with $.67 in cash for each warrant. This offer expired on April 20, 1981, and approximately 4,200,000 warrants were tendered in exchange for $42,000,000 principal amount of 10% Debentures and $2,814,000 in cash. Effect to this exchange offer has been given in the accompanying consolidated balance sheet at January 31, 1981.

3. INVESTMENTS AND ADVANCES

Otasco Credit Corporation - Otasco, Inc. has a financing agreement with Otasco Credit Corporation under which Otasco, Inc. sells substantially all of its customers' accounts receivable to Otasco Credit Corporation. Otasco, Inc. receives 90% of the amount of accounts receivable sold and repurchases accounts receivable in default, as defined. Otasco, Inc.'s 10% equity in accounts receivable sold is included in trade receivables in the consolidated balance sheets.

The condensed balance sheets of Otasco Credit Corporation at January 31, 1981 and 1980 were as follows:

	January 31,	
	1981	1980
	(In Thousands)	
Assets:		
Customers' accounts receivable purchased net of 10% withheld pending collection ($7,365,000 and $6,063,000)	$66,287	$54,564
Cash	8,671	6,721
Total assets	74,958	61,285
Liabilities:		
Notes payable to banks	56,000	44,750
Accrued interest and sundry	1,653	716
Due to affiliated companies	341	237
Total liabilities	57,994	45,703
Rapid's carrying value (including subordinated notes payable to McCrory of $15,000,000 and $14,000,000)	$16,964	$15,582

Net income of Otasco Credit Corporation was $382,000, $278,000 and $148,000, respectively, for the years ended January 31, 1981, 1980 and 1979 and has been included in consolidated net income.

Otasco Credit Corporation has an agreement with a regional bank group for a revolving credit line in the aggregate principal amount of $60,000,000, expiring on December 31, 1981 and secured by substantially all of Otasco, Inc.'s trade accounts receivable. The agreement provides, among other things, for an interest rate of 1/2 of 1% above the prime rate and maintenance of compensating balances equal to 15% of the borrowings. At January 31, 1981, 1980 and 1979 the interest rates were 20.5%, 15.75% and 12.5%, respectively. The average amount of notes payable to banks outstanding during the years ended January 31, 1981, 1980 and 1979 were approximately $53,300,000, $44,200,000 and $30,900,000, respectively, and the weighted average interest rates were approximately 15.9%, 13.6% and 9.9%, respectively.

ILC Industries, Inc. - At January 31, 1981 and 1980, Rapid owned 555,054 shares (74%) of ILC common stock. Rapid's investment in ILC, including loans and advances and equity in undistributed earnings, was approximately $10,000,000 and $8,200,000 at January 31, 1981 and 1980, respectively. Under ILC's bank agreement, repayment of advances made by Rapid on an open account basis is subordinated to ILC's bank debt. Rapid has also agreed not to dispose of any of its capital stock of ILC without the prior written consent of ILC's bank lenders. ILC reported net income of $1,984,000, $2,124,000 and $1,050,000 for the years ended December 31, 1980, 1979 and 1978, respectively.

Separate financial statements have not been presented for any non-consolidated subsidiary since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

4. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31,	
	1981	1980
	(In Thousands)	
At LIFO cost - whiskey, other spirits and wine:		
In bond	$182,895	$210,397
Tax paid	11,612	32,376
At cost - whiskey, other spirits and wine in bond	59,376	54,384
Principally LIFO:		
Merchandise at stores and warehouses	243,553	231,442
Raw materials and supplies	17,783	16,309
Principally first-in, first-out and average cost:		
Merchandise at plants and warehouses	28,650	39,411
Work in process	9,326	9,717
Raw materials and supplies	23,983	25,452
Total	$577,178	$619,488

The excess of current cost over stated LIFO values amounted to approximately $211,000,000 and $141,000,000 at January 31, 1981 and 1980, respectively.

5. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1981	January 31, 1980
	(In Thousands)	
Schenley, etc	$174,614	$174,614
Lerner	65,526	65,526
McCrory	19,478	19,488
McGregor-Doniger	17,862	17,690
Other	1,000	2,525
Total*	278,480	279,843
Less accumulated amortization	31,448	27,309
Net	$247,032	$252,534

* Includes $165,747,000 and $166,676,000 at January 31, 1981 and 1980, respectively, which is being amortized over forty years (see Note 1).

Rapid's equity in the net income of Schenley was $18,060,000, $13,044,000 and $11,567,000, respectively, for the years ended January 31, 1981, 1980 and 1979. The net assets of Schenley at January 31, 1981 and 1980 were $350,127,000 and $341,917,000, respectively. Rapid carries its investments in subsidiaries, including Schenley, at equity, plus, when applicable, the excess of the aggregate cost over the equity in underlying net assets acquired at dates of acquisition, including the portion allocated to franchises.

6. INDEBTEDNESS

Short-Term

Short-term borrowings for the three years ended January 31, 1981 were as follows:

	Year End		During the Year		
			Maximum	Average (a)	
	Amount Outstanding	Interest Rate	Amount Outstanding	Amount Outstanding	Interest Rate
	(In Thousands, Except Percentages)				
January 31, 1981:					
Credit lines	$1,850 (b)	23.4%	$ 50,000	$ 27,100	14.1%
Trade acceptances ..	-		20,200	7,200	11.4
Total	$1,850		$ 70,200	$ 34,300	
January 31, 1980:					
Credit lines			$ 75,000	$ 37,000	15.2
Trade acceptances ..			10,900	3,100	13.3
Total			$ 85,900	$ 40,100	
January 31, 1979:					
Credit lines			$167,000	$128,000	10.4

(a) Average borrowings were calculated using the average month-end borrowings outstanding and the average interest rates were calculated by dividing the interest expense for such borrowings by the average month-end borrowings outstanding.

(b) Assumed in merger with Kenton on January 31, 1981.

Lines of credit available for short-term bank borrowings aggregated $75,000,000 at January 31, 1981 (see "Rapid and McCrory Agreements" and "Schenley Agreements" below).

McCrory, under its compensating balance arrangement, is generally expected to maintain cash balances of 7-1/2% of the unused portion of the line of credit and 7-1/2% of the loans outstanding. Such requirements were generally satisfied by maintenance of the required balances. Schenley cancelled its short-term lines of credit in February 1981, which had provided a facility of $65,000,000.

The average cash book balances with various banks having a credit relationship with Rapid and its consolidated subsidiaries were approximately $23,000,000 and $25,000,000, respectively, during the years ended January 31, 1981 and 1980. The aforementioned balances were subject to withdrawal at any time.

NOTES TO FINANCIAL STATEMENTS-(Continued)

Long-Term

Details of consolidated long-term debt, including current maturities, at January 31, 1981 and 1980 was as follows:

Description	Amount Outstanding January 31, 1981	Amount Outstanding January 31, 1980	Effective Interest Rate (%) 1981	Effective Interest Rate (%) 1980
	(In Thousands)			
Notes payable to banks:				
Rapid	$ 5,320	-	23.5-24.2	-
McCrory	45,000	$ 60,000	20.5	15.8
Schenley	-	56,800	-	16.5
McGregor	5,250	6,250	5.0	5.0
Notes due to insurance companies:				
Schenley 10% notes due to 1991	105,800	110,400	10.0	10.0
Subordinated indebtedness:				
5% Jr. SF debentures due 1981*	6,597	6,597	5.0	5.0
5-1/4% notes due to 1981*	1,038	2,071	5.3	5.3
6-1/2% SF debentures due 1982*	3,905	3,905	8.7	8.7
10% notes due to 1984	3,785	-	15.0	-
7-1/2% SF debentures due to 1985	41,374	44,475	9.4	9.4
10-1/2% SF debentures due to 1985*	6,498	6,972	11.3	11.3
6% SF debentures due 1988	102,114	102,114	8.0	8.0
6-1/2% convertible debentures due 1992*	3,379	3,379	6.9	6.9
7% debentures due 1994 (1969 issue)	51,766	51,766	9.3	9.3
7% debentures due 1994 (1972 issue)	66,277	66,277	9.9	9.9
7-1/2% SF debentures due to 1994*	55,481	55,481	9.5	9.5
6-1/2% convertible debentures due 1994*	1,112	1,132	6.5	6.5
7-3/4% SF debentures due to 1995*	62,444	62,444	12.1	12.1
7-5/8% SF debentures due to 1997*	55,600	55,544	9.8	9.8
12% SF debentures due to 1999	17,926	17,926	12.9	12.9
10-3/4% SF debentures due to 2003	153,141	153,141	13.7	13.7
10-3/4% SF debentures due to 2004	5,870	5,870	13.7	13.7
11% SF debentures due to 2005	15,510	15,510	14.0	14.0
10% SF debentures due to 2006	288,588	-	20.7	-
Notes and mortgages payable:				
Rapid	5,712	4,710	2-18.0	2-10.3
McCrory	9,914	5,035	2-20.5	2-15.8
View Top Corporation	7,800	7,000	21.5	16.5
Shenandoah Corporation	4,069	-	7-19.0	-
Other subsidiaries	494	257	6-11.2	11.2
Total principal amount	1,131,764	905,056		
Less: Current maturities	(20,196)	(8,151)		
Unamortized discount	(256,398)	(114,176)		
Total	$ 855,170	$782,729		

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* Subordinated indebtedness of McCrory or one of its subsidiaries.

The 6-1/2% convertible debentures due 1992 of McCrory are convertible at the rate of $70 principal amount into $45 principal amount of 10% Debentures plus $3 in cash. The 6-1/2% convertible debentures due 1994 of J. J. Newberry are convertible at a rate of $150 principal amount for each share of J. J. Newberry Common Stock.

Aggregate principal amount of long-term debt at January 31, 1981 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1982...........	$20,196	1986	$ 172,914
1983	37,744	1991	249,710
1984	52,995	1996	308,379
1985	26,045	2001	147,809
1986	35,934	2006	151,946
		2011	101,006
TOTAL ..	$172,914	TOTAL ..	$1,131,764

At January 31, 1981, Rapid had outstanding bank loans of $5,320,000, of which $2,320,000 was paid on March 2, 1981. The remainder ($3,000,000) bears interest at the prime rate plus 2-1/2% and is payable as follows: 1983 ($500,000), 1984 ($1,000,000) and 1985 ($1,500,000). The capital stock of Melville Knitwear Co., Inc. is pledged to collateralize this obligation and Melville is required to maintain minimum levels of working capital and equity.

At January 31, 1981, notes and mortgages payable aggregating approximately $26,200,000 were secured by land, buildings and equipment having an approximate carrying value of $34,200,000.

Rapid and McCrory Agreements

At January 31, 1979, Rapid's long-term indebtedness to eleven banks and the Federal Deposit Insurance Corporation (the "Banks") was $79,483,000, payable over the five years ending December 31, 1983 and McCrory's long-term indebtedness to certain of the Banks was $35,000,000, payable over the three years ending January 31, 1984.

On May 7, 1979, Rapid prepaid its then indebtedness to the Banks of $78,047,000 utilizing funds received from McCrory, and McCrory prepaid its indebtedness of $35,000,000 and terminated a revolving credit agreement.

Concurrent with the foregoing, McCrory entered into a credit agreement ("McCrory Credit Agreement") with ten banks providing for a revolving credit up to $75,000,000 until December 31, 1981 and a reducing revolving credit, $60,000,000 at January 31, 1981, payable in annual instalments of $15,000,000, $20,000,000 and $25,000,000, respectively. Interest is payable on the revolving credit line at the rate of the greater of the prime rate or 1/2 of 1% above the commercial paper rate (as defined), and on the reducing revolving

credit at the rate of the greater of 1/2 of 1% over the prime rate or 1% above the commercial paper rate. The McCrory Credit Agreement requires McCrory to pay annual balance deficiency fees to the extent that 7-1/2% of the average unpaid principal amount and 7-1/2% of the commitments exceed McCrory's average collected demand deposit balances with the lending banks. The balance deficiency fee for the revolving credit line is calculated on the basis of the prime rate and for the reducing revolving credit is calculated on the basis of 1/2 of 1% over the prime rate.

The McCrory Credit Agreement requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated net current assets, and (iii) ratios of consolidated current assets to current liabilities (as each term is defined). In addition, Lerner is required to maintain a minimum level of consolidated tangible net worth. The McCrory Credit Agreement and other agreements covering certain indebtedness contain other material restrictions on McCrory and its subsidiaries, including restrictions on indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments and the right to engage in business combinations. Subject to certain limitations, McCrory may pay cash dividends on its common stock in an amount not exceeding 50% of its net income (as defined), and may also pay cash dividends on its preference stocks in accordance with the stated dividend rates. Rapid guarantees McCrory's obligations under the McCrory Credit Agreement, which guarantee is collateralized by Rapid's pledge of the outstanding capital stock of its principal operating subsidiaries, and McCrory pledged the capital stock of Lerner to secure its obligations.

Schenley Agreements

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed $115,000,000 evidenced by 10% promissory notes due to December 1, 1991. On February 14, 1979, Schenley entered into a revolving credit agreement with a group of banks ("Schenley Revolving Credit Agreement") which provided that Schenley could borrow an aggregate of $80,000,000 until February 28, 1982. The Schenley Revolving Credit Agreement was terminated by Schenley in February 1981.

The Schenley Loan Agreement provides, among other things, for required annual payments in each December of $4,600,000 in each of the years 1981 and 1982; $9,200,000 in each of the years 1983 to 1987 and $12,650,000 in each of the years 1988 to 1991. Prepayments are permitted without penalty each year up to the amount of the mandatory payment for that year provided that the aggregate principal amounts so prepaid may not exceed $28,750,000. Additional prepayments may be made, in certain circumstances, with a penalty of 8.33% at January 31, 1981, decreasing in equal amounts until the last year, during which there is no penalty.

The Schenley Loan Agreement also contains certain limitations relating to Schenley's financial position, its indebtedness, dividends and liens, and

investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments were restricted and transactions with affiliates, including Rapid, are significantly restricted. Schenley may pay cash dividends on its common stock in an amount up to 50% of its net income.

The Schenley Revolving Credit Agreement provided, among other things, that borrowings thereunder bear interest at the rate of 108% of prime rate, for a commitment fee at the rate of 1/2 of 1% per annum on the average unused portion of a bank's commitment and that if balances equal to 8% of the average daily commitment were not maintained, a deficiency fee would be incurred. Under Schenley's confirmed short-term lines of credit Schenley was required to maintain balances equal to 10% of borrowings.

McGregor-Doniger Term Loan Agreement

The McGregor-Doniger term loan agreement ($5,250,000 and $6,250,000 outstanding at January 31, 1981 and 1980, respectively) provides for quarterly payments of $250,000, interest at 5% per annum until May 15, 1982 and thereafter at the prime rate. Rapid guarantees the obligations of McGregor-Doniger under this agreement.

Accounts Receivable Financing Agreements

Rapid at January 31, 1981, also has accounts receivable financing agreements under which it may borrow up to a maximum of $33,000,000.

7. $3.00 REDEEMABLE PREFERENCE STOCK

In accordance with the terms of an exchange offer to common and convertible preferred stockholders, which expired November 30, 1979, Rapid issued 2,671,790 shares of a new $3.00 redeemable preference stock in exchange for 2,051,868 shares of common stock and shares of convertible preferred stocks convertible into 619,922 shares of common stock (see Note 8).

The difference between the stated value of the $3.00 redeemable preference stock at issuance ($20 per share) and the $25 per share redemption price was being amortized over the redemption period. Such amortization ($177,000 for the year ended January 31, 1981 and $40,000 for the period from November 1, 1979 to January 31, 1980) is included in the consolidated preferred dividend requirement.

As of January 31, 1981, pursuant to the merger of Rapid and Kenton, the $3.00 redeemable preference stock was exchanged for 10% Debentures and cash (see Note 2).

8. CONVERTIBLE PREFERRED STOCKS

Convertible preferred stocks of Rapid were as follows:

	$3.00 Preferred(a)	$3.15 Preferred(a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding:			
January 31, 1981 (b)	56,991	3,706	-
January 31, 1980	61,989	3,897	41,015
Aggregate par or stated value at January 31, 1981 (b)	$3,098,000	$227,000	-
Aggregate liquidation preference at January 31, 1981 (b)	$5,984,000	$389,000	-
Liquidation value per share (b)	$ 105	$ 105	$47-1/4
Common stock conversion rate per share	3.572 for 1(b)	3.877 for 1(b)	3.2 for 1(c)

(a) Without par value.
(b) Immediately prior to the Rapid-Kenton merger, (see Note 2).
(c) Until redeemed on October 31, 1980.

During the years ended January 31, 1981 and 1980, conversions of convertible preferred stocks were as follows:

	Year Ended January 31, 1981	1980
Shares of preferred stock converted:		
$3 Preferred	4,998	15,118
$3.15 Preferred	191	1,252
$2.25 Junior Preferred	35,521	16,511
Shares of common stock issued	132,151	111,642

During the year ended January 31, 1980, 20,248 shares of $3 preferred stock, 404 shares of $3.15 preferred stock and 170,699 shares of junior preferred stock were acquired in exchange for 619,922 shares of $3.00 redeemable preference stock (see Note 7).

On October 31, 1980 the $2.25 junior preferred stock was redeemed. On the date of redemption there were 5,494 shares outstanding, which were redeemed for $260,000.

On January 30, 1981, the $3.00 preferred and $3.15 preferred stocks were called for redemption on March 2, 1981, a condition precedent to the Rapid-Kenton merger (see Note 2).

9. COMMON STOCK AND WARRANTS

Common Stock

At January 31, 1980, Kenton owned 1,680,407 shares (approximately 33%) of the outstanding shares of Rapid common stock, acquired from Meshulam Riklis, Isidore A. Becker and unaffiliated private investors. In its filings with the Securities and Exchange Commission, Kenton stated that its purpose in acquiring such shares of Rapid common stock was to obtain control of the management and business of Rapid. Certain of Rapid's officers, directors and employees were also officers and directors of Kenton. More than 40% of the outstanding shares of Kenton common stock were owned by (i) a trust for the benefit of Mr. Riklis' children and grandchildren, (ii) Mr. Riklis' children, their spouses and the other trustees and (iii) directors and officers of Rapid and certain of their children.

At January 31, 1981, pursuant to the merger of Rapid and Kenton, Riklis Family Corporation and AFC own all of the outstanding equity securities of Rapid (see Note 2 and Item 5 - "Dividend Restrictions").

Warrants

Warrants entitling their holders to purchase 5,431,171 shares of Rapid's common stock at an exercise price of $35 per share with terms subject to adjustments under certain circumstances and redeemable at Rapid' option at $20 per warrant, expiring May 15, 1994 were outstanding prior to the Merger. See Note 2 for terms of the warrants after the Merger and a warrant exchange offer.

10. RESERVES FOR CLOSED FACILITIES

S. Klein Department Stores, Inc. - In March 1975 (reflected in the financial statements as of January 31, 1975), management of McCrory decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. The program of phasing out the S. Klein stores resulted in all nineteen stores being closed by the end of August 1975. McCrory has assigned the leases or sublet eleven of the stores, which included the assignment of five stores to Korvettes, has purchased one store, which has been substantially leased to others, has sublet major portions of four other stores and is attempting to make further dispositions. McCrory has not been released by its landlords from any of its obligations under 14 of the

foregoing leases. While it was not then possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations, less related deferred Federal income tax benefit of $26,800,000, was established based upon various assumptions which management then believed were realistic. In December 1975 and January 1978, management of McCrory determined that additional provisions of $16,400,000 and $14,500,000, respectively, less related deferred Federal income tax benefits of $7,900,000 and $7,000,000, respectively, were necessary based upon losses incurred and revised estimates of additional future losses to be incurred (including the transactions with Korvettes, Inc. described below). Such estimated losses and charges consist of the following:

	Provisions			January 31, 1981	
	Year Ended January 31,			Accumulated	
	1978	1976	1975	Charges	Balance
	(In Thousands)				
Write-down of assets to net realizable value		$ 1,755	$24,126	$25,881	
Present value of future lease commitments and real estate taxes, net of estimated recoveries	$ 9,936	6,320	24,110	28,149	$12,217
Estimated losses during phase-out period and other related costs	4,564	8,325	10,064	18,583	4,370
	14,500	16,400	58,300	$72,613	$16,587 *
Less Federal income tax benefit	7,000	7,900	26,800		
Estimated losses	7,500	8,500	31,500		
Less minority interest	-	3,191	11,818		
Rapid's equity therein	$ 7,500	$ 5,309	$19,682		

* The balance at January 31, 1981 consists of $2,962,000 (current) and $13,625,000 (long-term).

As of October 1, 1975, McCrory assigned its rights as tenant under leases for five S. Klein store locations to Korvettes, a then wholly-owned subsidiary of Arlen Realty & Development Corp. Korvettes has assigned its leases for three of the locations, two of which McCrory has been released of its lease obligations. As part of the five store transaction, McCrory sold to Korvettes all of the leasehold improvements and certain trade fixtures located in such stores for $3,916,000 in notes, payable in monthly instalments over 18 years. At January 31, 1981, the notes aggregated $2,693,000 of which $2,405,000 is included in "other assets" in the consolidated balance sheet. Korvettes has assumed McCrory's obligations under such leases, including the obligation to pay substantially all of the rent, real estate taxes and other charges. The aggregate minimum annual rental payments under such remaining leases range from approximately $900,000 in the year ending January 31, 1982 to approximately $400,000 in the year ending January 31, 2000, and

aggregate approximately $10,300,000 for the period commencing February 1, 1981 and ending upon expiration of such leases. Real estate taxes (based upon present taxes) and other charges payable under such leases currently aggregate approximately $11,000,000. In March 1979, Arlen Realty & Development Corp. sold its interest in Korvettes to the Agache-Willot Group. Korvettes, as reported in the press, has ceased its retail operations.

While additional provisions may be required based upon future developments, it is the opinion of management of Rapid that the ultimate resolution of the S. Klein phase-out will not have a material effect upon Rapid's consolidated financial position.

Other Store Closing Reserves - At January 31, 1981, McCrory had reserves for the termination of certain variety store and department store operations aggregating approximately $6,690,000 of which approximately $2,160,000 was current.

11. INCOME TAXES

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid and its subsidiaries have been substantially completed for the periods ended January 31, 1974. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amounts accrued in the consolidated balance sheets, in the opinion of management, is adequate to cover amounts which may ultimately be payable.

For the year ended January 31, 1977, Rapid incurred a net operating loss on a tax return basis of approximately $17,000,000 which Rapid elected to carryforward. Rapid utilized such carryforward in the year ended January 31, 1979, and, accordingly, the benefit of such carryforward, net of applicable deferred taxes, together with an investment tax credit carryforward have been reported as an extraordinary credit.

The provisions for income taxes included in the statements of consolidated income consisted of the following:

	Year Ended January 31,		
	1981	1980	1979
		(In Thousands)	
Continuing operations:			
Federal:			
Currently payable	$ 5,457	$12,291	$16,085
Charge equivalent to tax effect of loss carryforwards and credits	-	-	4,844
Deferred	7,283	6,865	8,833
Foreign:			
Currently payable	3,217	2,127	2,204
Deferred	(180)	28	(566)
State	7,099	7,419	9,785
	22,876	28,730	41,185
Discontinued operations - Federal:			
Currently payable	(1,023)	(1,319)	(1,755)
Deferred	1,023	1,319	1,755
Total	$22,876	$28,730	$41,185

Available investment tax credits of approximately $3,500,000, $4,900,000 and $2,500,000, respectively, for the years ended January 31, 1981, 1980 and 1979 were applied as reductions of Federal income tax provisions.

Deferred Federal and foreign income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences attributable to continuing operations and the tax effect of each were as follows:

	Year Ended January 31,		
	1981	1980	1979
	(In Thousands)		
Excess of tax over book depreciation	$ 2,672	$ 2,877	$ 1,545
Deferred gross profit on installment sales	1,314	1,138	1,356
Net reduction in reserves for store closings	1,231	918	2,217
Amortization of debt discount	2,948	1,620	2,006
Other	(1,062)	340	1,143
Total	$ 7,103	$ 6,893	$ 8,267

Deferred income taxes relating to discontinued operations result from charges to the reserve for phasing out the S. Klein operations.

The provision for income taxes for the years ended January 31, 1981, 1980 and 1979 amounted to $22,876,000, $28,730,000 and $41,185,000, respectively, representing effective income tax rates of 45.4%, 45.4% and 52.5%, respectively. These amounts are different than the amounts of $23,203,000, $29,133,000 and $37,512,000, respectively, computed by applying the statutory Federal income tax rate to income attributable to continuing operations before provision for income taxes. The reasons for the variances from the statutory rate were as follows:

	Year Ended January 31,		
	1981	1980	1979
	(Percent of Pre-tax Income)		
Computed statutory rate applicable to the period	46.0%	46.0%	47.8%
Increase (decrease) in income tax rate resulting from:			
Investment tax credit	(6.9)	(7.7)	(3.1)
State tax provision (net of Federal income tax benefit)	7.6	6.3	6.5
Amortization of excess of cost of investments over related equities and other intangibles	4.3	3.7	2.7
Foreign income	(1.5)	(2.0)	(.6)
Amortization of excess of equity over cost of related investment	(1.6)	(1.8)	(1.2)
Other	(2.5)	.9	.4
Effective income tax rate	45.4%	45.4%	52.5%

The cumulative undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately $72,300,000 at January 31, 1981. No provision has been made for taxes that would be payable upon distribution, since such earnings have been indefinitely reinvested.

12. PENSION PLANS

Rapid and its subsidiaries have various contributory and non-contributory pension plans covering eligible employees. The provisions for pension cost relating to the plans were $10,596,000, $10,063,000 and $11,165,000, for the years ended January 31, 1981, 1980 and 1979, respectively. It is the general policy to fund accrued pension cost as required.

The accumulated combined plan benefits and combined plan net assets for the various pension plans at January 1, 1981 and 1980 were as follows:

	1981	1980
	(In Millions)	
Actuarial present value of accumulated plan benefits:		
Vested	$131.9	$140.1
Nonvested	10.2	15.6
	$142.1	$155.7
Net assets available for benefits	$131.6	$115.7

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 9% at January 1, 1981 and ranged from 3-1/2% to 7% at January 1, 1980.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1981, 1980 and 1979, $2,820,000, $1,669,000 and $1,751,000, respectively, were provided for such allowances.

13. GAINS ON DEBENTURE EXCHANGES

During the year ended January 31, 1979, Rapid issued $17,926,000 principal amount of 12% sinking fund subordinated debentures due 1999 in exchange for $21,728,000 principal amount of its 7-1/2% sinking fund subordinated debentures due 1985. Rapid recorded an extraordinary gain of $1,105,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the debentures issued, reduced by applicable deferred income taxes of $1,107,000.

During the year ended January 31, 1979 Rapid issued $5,870,000 principal amount of 10-3/4% sinking fund subordinated debentures due 2004 in exchange for $7,827,000 principal amount of its 6% sinking fund subordinated debentures due 1988. Rapid recorded an extraordinary gain of $1,242,000 on the exchange representing the difference between the carrying value of the debentures exchanged (the principal amount tendered reduced by applicable unamortized debt discount) and the present value of the debentures issued, reduced by applicable deferred income taxes of $612,000.

The provision for income taxes relating to the extraordinary items are less than the statutory tax rate as a result of the non-taxability of the portion of the gain that has been allocated to Rapid's basis of its investment in Schenley.

14. INCOME PER SHARE OF COMMON STOCK

Primary income per share for the years ended January 31, 1981, 1980 and 1979, respectively, are after deducting Rapid's preferred dividend requirements (including preferred dividend requirements of its consolidated subsidiaries of $861,000, $915,000 and $920,000) and are based upon the weighted average number of common shares outstanding during each year and common stock equivalents arising from the assumed exercise of stock options and warrants and utilization of a portion of the proceeds to acquire 20% of the outstanding shares of common stock and the balance of the proceeds to reduce outstanding debt (resulting in assumed reduction in interest expense net of income tax).

Fully diluted income per share amounts are based on the weighted average number of common shares outstanding increased by the number of common shares which would be issued assuming all dilutive convertible securities had been converted into common stock with appropriate adjustments having been made for related dividends and interest expense and dilution from assumed exercise of stock options and warrants.

Since earnings per share presented for the quarters (see Note 21) assume the exercise of stock options and warrants when the result for that quarter is dilutive, the total of the quarterly per share amounts do not agree to the full year totals.

15. LEASE COMMITMENTS

Rapid and its subsidiaries operate principally in leased premises. the basic terms of the initial leases generally range from 10 to 40 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Property and equipment under capital leases was as follows:

	January 31, 1981	January 31, 1980
	(In Millions)	
Buildings and store properties	$ 150.5	$ 158.4
Machinery and equipment	26.9	34.0
Less accumulated amortization	(122.5)	(125.9)
Net	$ 54.9	$ 66.5

Amortization of property under capital leases is computed using the straight-line method and has been included in depreciation and amortization expense.

The minimum rental commitments on leases of continuing operations (exclusive of common area charges) in effect at January 31, 1981 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1982	$ 14.3	$ 59.1
1983	12.9	56.2
1984	12.1	52.0
1985	10.9	48.2
1986	9.3	45.6
Thereafter	81.3	302.8
Total minimum payments required *	140.8	$563.9
Less:		
Amount representing interest	51.7	
Amount representing estimated executory costs included in minimum lease payments	5.2	
	56.9	
Present value of net minimum lease payments	83.9	
Less current portion	8.2	
Long-term obligation	$ 75.7	

* Minimum payments have not been reduced by minimum sublease rentals of $8.3 million under capital leases and $55.8 million under operating leases due in the future under noncancellable subleases. Contingent rentals which may be paid under certain leases have not been included.

Rental expense relating to all operating leases of continuing operations was as follows:

	Year Ended January 31,		
	1981	1980	1979
		(In Millions)	
Minimum rentals	$65.1	$58.0	$52.3
Contingent rentals and expenses	23.2	23.2	22.7
Less - sublease rentals	(9.1)	(7.2)	(6.2)
Net	$79.2	$74.0	$68.8

Contingent rentals applicable to capital leases amounted to $3.0 million, $3.0 million and $2.7 million, respectively, in the years ended January 31, 1981, 1980 and 1979.

The minimum rental and real estate tax commitments of S. Klein at January 31, 1981, net of noncancellable subleases, and excluding the leases assigned to Korvettes (see Note 10) are as follows:

Years Ending January 31,	(In Millions)
1982	$ 1.6
1983	1.6
1984	1.7
1985	1.8
1986	1.7
Thereafter	9.8
	18.2
Less - amount representing interest	10.0
Present value of commitments	$ 8.2

16. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of securities laws, anti-trust laws, or corporation laws. Substantial damages or significant declaratory or injunctive relief are requested in these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers and others in which substantial damages are and may be requested. Rapid and its subsidiaries are unable to predict the possible range of damages in those actions where an amount of monetary damages is not specified. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. See Item 3 - "Legal Proceedings" which is an integral part of these Financial Statements.

At January 31, 1981, Rapid was guarantor of the following: (a) $30,800,000 of lease payments supporting industrial revenue bonds and approximately $27,800,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; and (b) other obligations of approximately $11,200,000, certain of which are lease payments of subsidiaries.

Rapid and certain of its subsidiaries make payment to foreign suppliers in the ordinary course of business by means of letters of credit. At January 31, 1981, the amount of letters of credit outstanding aggregated approximately $21,600,000.

17. OTHER REVENUES

Other revenues - net consisted of the following:

	Year Ended January 31,		
	1981	1980	1979
		(In Thousands)	
Interest income	$ 4,935	$ 6,051	$ 3,934
Gain (loss) on sale of distributors	4,163	(10)	(515)
Income (loss) of unconsolidated subsidiaries:			
ILC Industries, Inc.	1,477	1,571	148
Otasco Credit Corporation	737	536	296
Other	(858)	(1,261)	(1,234)
Royalties - net	1,640	1,870	196
Gain on cash purchases of subordinated debentures for sinking funds	464	159	1,221
Termination of capital leases	(34)	708	600
Sundry - net	2,032	(438)	1,453
Total	$14,556	$ 9,186	$ 6,099

18. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31,					
	1981	1980	1979	1981	1980	1979
	Consolidated			Company		
	(In Thousands)					
Maintenance and repairs.	$ 22,305	$ 21,471	$19,455	$ 25	$ 153	$ 131
Depreciation and amortization of property, plant and equipment ..	$ 32,377	$ 29,857	$ 28,585	$ 498	$ 643	$ 585
Depreciation and amortization of intangible assets	$ 5,614	$ 4,748	$ 4,493	$3,121	$3,093	$2,888
Taxes, other than income taxes:						
Property	$ 12,892	$ 13,590	$ 14,919	$ 5	$ 26	$ 50
Payroll	32,918	32,389	30,077	95	111	119
Federal excise, rectification taxes and duties on imported products	227,808	246,317	263,761	-	-	-
State beverage taxes..	9,275	19,728	20,531	-	-	-
Other	4,206	4,175	3,775	439	451	433
Total	$287,099	$316,199	$333,063	$ 539	$ 588	$ 602
Rents before reduction for subrentals received from tenants ..	$ 91,258	$ 84,233	$77,650	$7,077	$6,504	$6,341
Advertising costs	$ 66,177	$ 60,626	$53,135	-	$ 40	$ 84

All amounts above pertain to continuing operations.

19. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	Year Ended January 31,	
	1981	1980
	(In Thousands)	
Taxes, other than Federal and foreign income ...	$ 54,224	$ 48,928
Salaries, wages, commissions, etc.	32,800	30,624 *
Interest	31,518	17,768
Contributions to employee benefit plans	14,077	13,573
Rents	10,466	10,131
Reserves for store closings	5,123	5,325
Other	34,247	23,758
Total	$182,455	$150,107

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* Restated (see Note 20).

20. ACCOUNTING CHANGE - COMPENSATED ABSENCES

In response to an accounting standard issued by the Financial Accounting Standards Board during 1980, Rapid and certain of its subsidiaries began accounting for employee vacation benefits as earned, whereas in prior years such benefits were accounted for in the period paid. The accounting change had no effect on net income for the year ended January 31, 1981 or on net income previously reported for the years ended January 31, 1980 and 1979. In accordance with provisions of the new accounting standard, the beginning balance of retained earnings at February 1, 1978 has been reduced by $5,587,000, the effect (net of income taxes) of applying the new method of accounting retroactively.

21. INTERIM FINANCIAL INFORMATION (Unaudited)

	Quarter Ended			
Year Ended January 31, 1981	April 30	July 31	Oct. 31	Jan. 31
	(In Millions, Except Per Share Amounts)			
Net sales	$570.3	$591.2	$684.5	$742.7
Gross profit	158.3	166.9	198.3	201.7
Income (loss) before income taxes	(4.3)	2.0	19.5	33.2
Net income (loss)	(3.2)	.1	10.2	20.5
Per share of common stock (Note 14):				
Primary net income (loss)	$ (1.09)	$ (.43)	$ 1.34	$ 2.64
Fully diluted net income (loss)	*	*	1.19	2.23
Dividends	.20	.20	-	.20
Year Ended January 31, 1980				
Net sales	$567.9	$590.9	$691.6	$753.4
Gross profit	160.1	164.4	195.4	217.0
Income before income taxes	5.1	5.6	20.7	31.9
Net income	2.0	2.2	10.8	19.6
Per share of common stock (Note 14):				
Primary net income	$ .23	$ .25	$ 1.34	$ 2.53
Fully diluted net income	.22	.24	1.14	2.09
Dividends	.20	.20	-	.20

* Anti-dilutive.

22. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

ASSETS	January 31, 1981	1980
	(In Thousands)	
Current assets	$ 26,661	$ 29,325
Investments in and advances to subsidiaries	471,994	463,083
Property and equipment - net	8,674	9,845
Intangibles - net	237,984	244,831
Other assets	4,417	3,310
Total	$749,730	$750,394
LIABILITIES AND EQUITY		
Current liabilities	$ 99,497	$ 49,338
Long-term debt, less current maturities and unamortized discount	530,487	411,597
Other non-current items	44,803	45,712
$3.00 redeemable preference stock	-	53,476
Preferred and common stockholders' equity	74,943	190,271
Total	$749,730	$750,394

CONDENSED STATEMENTS OF INCOME

	Year Ended January 31, 1981	1980	1979
		(In Thousands)	
Net sales and other income	$ 5,717	$ 5,560	$ 9,810
Costs and expenses and other deductions	(16,813)	(23,454)	(18,445)
Interest and debt expense	(51,226)	(51,490)	(56,290)
Income tax benefits	28,584	31,353	30,102
Loss from operations before equity in income of subsidiaries and extraordinary credits	(33,738)	(38,031)	(34,823)
Equity in income of consolidated subsidiaries	61,304	72,634	72,065
Income before extraordinary credits	27,566	34,603	37,242
Extraordinary credits	-	-	7,191
Net income	$ 27,566	$ 34,603	$ 44,433

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1981	1980	1979
	(In Thousands)		
Funds Provided:			
Operations:			
Income before extraordinary credits	$ 27,566	$ 34,603	$ 37,242
Less - equity in income of consolidated and non-consolidated subsidiaries	62,781	74,205	72,842
Loss before equity in income of consolidated subsidiaries and extraordinary credits	(35,215)	(39,602)	(35,600)
Cash dividends from subsidiaries	35,523	46,922	46,372
Charges not requiring current outlays - depreciation and amortization, including debt discount, excess cost, franchises and deferred income taxes	7,687	12,175	8,758
Funds provided by Parent Company operations, exclusive of utilization of loss carryforwards and tax credits	7,995	19,495	19,530
Utilization of loss carry-forwards	-	-	4,844
Funds from operations	7,995	19,495	24,374
Increases in long-term debt	147,676	-	12,331
Decrease in investments and intercompany balances - net	11,424	56,280	3,467
Issuance of $3.00 redeemable preference stock	-	53,436	-
Disposal of property, plant and equipment	36	459	53
Other - net	(1,625)	1,967	4,927
	165,506	131,637	45,152
Funds Applied:			
Decreases in long-term debt	4,249	65,524	17,770
Acquisition of common, preference and preferred stocks and warrants	163,166	53,951	12,411
Cash dividends	11,358	6,524	3,875
Acquisition of Kenton - net	36,414	-	-
Additional consideration for acquisition of subsidiaries	3,035	-	6,090
Investment in McGregor-Doniger Inc.	-	4,189	-
Additions to property, plant and equipment	107	128	164
	218,329	130,316	40,310
Increase (Decrease) in Working Capital	$(52,823)	$ 1,321	$ 4,842
Increase (Decrease) in Working Capital by Major Components:			
Current assets	$ (2,664)	$ (7,778)	$(24,904)
Current liabilities	(50,159)	9,099	29,746
Increase (Decrease) in Working Capital	$(52,823)	$ 1,321	$ 4,842

23. SEGMENT INFORMATION

See "Business - Segment Information" in Item 1 for net sales, operating profit (loss) and asset information relating to Rapid's industry segments, which are an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31, 1981		1980		1979	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
	(In Millions)					
Retail Merchandising						
Lerner Stores	$22.4	$ 9.9	$24.5	$ 8.2	$16.8	$ 6.9
McCrory Stores	11.1	10.0	13.9	9.0	5.4	9.6
OTASCO Automotive and Home Accessories Stores	3.4	2.6	4.3	2.4	4.2	2.1
Britts Department Stores and others ..	2.1	.5	.6	1.1	1.1	1.2
Alcoholic Beverages						
Schenley	4.4	4.8	7.3	5.2	6.3	5.0
Apparel						
Industrial Group	2.2	2.2	1.4	2.3	1.8	2.3
Corporate and other	11.4	2.4	8.3	1.7	2.0	1.5
Total	$57.0	$32.4	$60.3	$29.9	$37.6	$28.6

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES—COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1981

(In Thousands)

Column A	Column B	Column C	Column D	Column E	
				Balance at end of year	
Name of debtor	Balance at beginning of year	Additions	Amounts Collected	Current	Not current
1981:					
Harold S. Divine		$286(1)			$286
Daniel J. Manella		286(1)			286
Meshulam Riklis(2)	$ 34	3(3)	$10	$10	17
Leonard C. Lane	17	1(3)	5	5	8
Isidore A. Becker	86	6(3)	25	25	42
Total	$137	$582	$40	$40	$639
1980:					
Meshulam Riklis(2)	$ 41	$ 3(3)	$10	$10	$ 24
Leonard C. Lane	20	2(3)	5	5	12
Isidore A. Becker	102	9(3)	25	25	61
Total	$163	$ 14	$40	$40	$ 97
1979:					
Meshulam Riklis(2)		$ 41(4)		$10	$ 31
Leonard C. Lane		20(4)		5	15
Isidore A. Becker		102(4)		25	77
Total		$163		$40	$123

Notes:

(1) Principal amount of 6% notes due June 30, 1982. See Item 10—"Management Remuneration and Transactions—Certain Transactions and Other Matters".

(2) See Item 10—"Management Remuneration and Transactions—Certain Transactions and Other Matters".

(3) Imputed interest.

(4) Due in five equal annual installments which commenced March 31, 1979, discounted to present value, at 9.95%, over life of obligations. See Item 3—"Legal Proceedings—Litigation Related to Compensation and Other Matters".

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM RELATED PARTIES—COMPANY

For the Three Years Ended January 31, 1981

(Dollar Amounts In Thousands)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Year		Additions		Deductions		Balance at End of Year	
Name of Issuer and Description of Investment	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Related Parties For the Year	Other	Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars
1981:								
SUBSIDIARIES CONSOLIDATED—								
Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$100,225	$45,278		$27,673	$ 591(1)	5,046,825	$117,239
McCrory Corporation (Preference)		3,235		$ 15 (2)				3,250
Schenley Industries, Inc.	200	339,917	18,060		7,850		200	350,127
McGregor-Doniger Inc.	1,000	3,753	(1,879)				1,000	1,874
McGregor-Doniger Inc. (Preferred)		49,715						49,715
Rapid-American Menswear, Inc.	10	1,219	(227)				10	992
RAAM Information Services Corporation	100,000	(627)	164	480 (3)			100,000	17
View Top Corporation	100	701	4				100	705
Triple Eight Corporation	2	(1,978)		1,979 (3)			2	1
Theatre Venture, Inc.	1	(165)	(8)	185 (3)			1	12
Anvil Brand Incorporated	100	18,381	(8)				100	18,373
Rapid Distribution Service Inc.			(80)	219 (4)			1,000	139
Shenandoah Corporation				7,010 (5)			100	7,010
Melville Knitwear Co., Inc.				7,218 (5)			100	7,218
Donagain Corp.				3,655 (5)			21	3,655
Plastic Toy and Novelty Corp.				(23)(5)			500	(23)
		514,376	61,304	20,738	35,523	591		560,304
SUBSIDIARY NOT CONSOLIDATED—								
ILC Industries, Inc.	555,054	2,491	1,477				555,054	3,968
Total		$516,867	$62,781	$20,738	$35,523	$ 591		$564,272 (14)
1980:								
SUBSIDIARIES CONSOLIDATED—								
Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$ 87,692	$55,147		$40,172	$ 2,442(1)	5,046,825	$100,225
McCrory Corporation (Preference)		3,235						3,235
Schenley Industries, Inc.	200	333,623	13,044		6,750		200	339,917
McGregor-Doniger Inc.			3,332	$ 84 (1) 4,189 (6)		3,852(7)	1,000	3,753
McGregor-Doniger Inc. (Preferred)				49,715 (8)				49,715
Glen Alden Corporation	200	48,731	398			26,266(9) 22,863(10)		
Rapid-American Menswear, Inc.	10	29,084	143	2,999 (3)		31,007(8)	10	1,219
RAAM Information Services Corporation	100,000	(637)	10				100,000	(627)
View Top Corporation	100	118	583				100	701
Triple Eight Corporation	2	(1,985)	7				2	(1,978)
Theatre Venture, Inc.	1	(142)	(23)				1	(165)
Anvil Brand Incorporated			(7)	41,804 (11)		18,708(8) 4,708(9)	100	18,381
		499,719	72,634	98,791	46,922	109,846		514,376
SUBSIDIARY NOT CONSOLIDATED—								
ILC Industries, Inc.	555,054	920	1,571				555,054	2,491
Total		$500,639	$74,205	$98,791	$46,922	$109,846		$516,867 (14)

Column A	Column B		Column C		Column D		Column E	
	Balance at Beginning of Year		Additions		Deductions		Balance at End of Year	
Name of Issuer and Description of Investment	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Related Parties For the Year	Other	Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars
1979:								
SUBSIDIARIES CONSOLIDATED—								
Common Stock (unless indicated otherwise):								
McCrory Corporation	5,046,825	$ 52,083	$55,349	$ 432(1)	$20,172		5,046,825	$ 87,692
McCrory Corporation (Preference)		3,218		17(12)				3,235
Schenley Industries, Inc	200	348,256	11,567		26,200		200	333,623
Glen Alden Corporation	200	49,675	3,406			$ 4,350(1)	200	48,731
Rapid-American Menswear, Inc.	10	27,290	1,794				10	29,084
RAAM Information Services Corporation	100,000	(692)	55				100,000	(637)
View Top Corporation	100	164	(46)				100	118
Triple Eight Corporation	2	(1,980)	(5)				2	(1,985)
Theatre Venture, Inc.	1	(87)	(55)				1	(142)
Halston Menswear Inc.	5	(1,020)		1,020(10)				
		476,907	72,065	1,469	46,372	4,350		499,719
SUBSIDIARY NOT CONSOLIDATED—								
ILC Industries, Inc.	555,054	143	777				555,054	920
Total		$477,050(13)	$72,842	$ 1,469	$46,372	$ 4,350		$500,639

NOTES:

1. Rapid's portion of other changes in common stockholders' equity.
2. Rapid purchased 125 shares of McCrory 5½% Cumulative Preference B Stock and 26 shares of McCrory 4½% Preference B Stock.
3. Capital contribution of indebtedness of related party.
4. Contribution of the net assets of an operating division of Parent Company.
5. Subsidiaries of Kenton Corporation (see Note 1 to Financial Statements).
6. Cost of acquiring common stock.
7. Excess of cost over acquired equity, including $754,000 of equity in losses prior to acquisition of majority interest.
8. Contribution of the net assets of the operating divisions of Rapid-American Menswear Inc. and Anvil Brand, Incorporated.
9. Dividend of wholly-owned subsidiary to Parent Company.
10. Liquidated into parent.
11. Transferred from Glen Alden
12. Rapid purchased 68 shares of McCrory $6 Cumulative Preference Stock and 101 shares of McCrory 4½% Preference B Stock.
13. Restated, (see Note 20 to Financial Statements).
14. Reconciliation of investments in and advances to subsidiaries as per Parent Company condensed balance sheets:

	January 31,	
	1981	1980
Amounts as per above	$564,272	$516,867
Amounts as per Schedule IV (net)	(92,278)	(53,784)
	$471,994	$463,083

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

Indebtedness of and to Related Parties—Not Current—Company

For the Three Years Ended January 31, 1981

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
		Indebtedness of				Indebtedness to		
Name of Related Party	Balance at beginning of year	Additions	Deductions	Balance at end of year	Balance at beginning of year	Additions	Deductions	Balance at end of year
1981:								
SUBSIDIARIES CONSOLIDATED:								
McCrory Corporation					$39,672	$ 44,311(7)	$ 26,188(1) 27,500(15)	$ 30,295
Schenley Industries, Inc.					(2,101)	26,330(2) 9,583(7)	9,610(1) 1,913(4)	22,289
McGregor-Doniger Inc.					2,915	1,397(1) 12,525(3)		16,837
Rapid-American Menswear, Inc.					634	193(1)	366	461
RAAM Information Services Corporation	$ 886	$ 124(1) 310(4)	$ 546(5) 480(6) 100	$ 194				
View Top Corporation	428	858(7)	380(1)	906				
Triple Eight Corporation	1,978	363(7)	1,979(6)	362				
Theatre Venture Corporation	801	537(7)	185(6)	1,153				
Anvil Brand Incorporated					22,496	437	240(1) 33	22,660
Rapid Distribution Services		500(7)	92(1) 324(5)	84				
Shenandoah Corporation						3,782(8)		3,782
Melville Knitwear Co. Inc.						3,408(8)		3,408
Donagain Corp.						3,059(8)		3,059
Plastic Toy and Novelty Corp.		1,800(8)		1,800				
	4,093	4,492	4,086	4,499	63,616	105,025	65,850	102,791
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	5,739	368	93	6,014				
	$ 9,832	$ 4,860	$ 4,179	$10,513	$63,616	$105,025	$ 65,850	$102,791
10% subordinated notes, net of discount issued to former Kenton Management(9)						$ 2,560(10)		$ 2,560
6% subordinated notes, net of discount due Isidore A. Becker(9)						634(11)		634
						$ 3,194		$ 3,194

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I
	Balance at beginning of year	Indebtedness of		Balance at end of year	Balance at beginning of year	Indebtedness to		Balance at end of year
Name of Related Party		Additions	Deductions			Additions	Deductions	
1980:								
SUBSIDIARIES CONSOLIDATED:								
McCrory Corporation					$ 2,037	$110,888(7)	$ 31,365(1) 41,888(15)	$ 39,672
Schenley Industries, Inc.	$ 948	$ 6,100(1) 1,939(4)	$ 6,886	$ 2,101				
Glen Alden Corporation					24,012	1,476(7)	479(1) 25,009(12)	
McGregor-Doniger Inc.						5,516(3)	2,601(1)	2,915
Rapid-American Menswear, Inc.					(4,325)	2,999(6) 3,799(13)	125(1) 1,324 390(4)	634
RAAM Information Services Corporation	1,789	339(4) 9	1,251(5)	886				
View Top Corporation	2,236		1,196(1) 612	428				
Triple Eight Corporation	1,986	6	14	1,978				
Theatre Venture Corporation	495	336(7)	30(1)	801				
Anvil Brand Incorporated						15,538(14) 6,084(13) 874		22,496
	7,454	8,729	9,989	6,194	21,724	147,174	103,181	65,717
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	5,374	446	81	5,739				
	$12,828	$ 9,175	$10,070	$11,933	$21,724	$147,174	$103,181	$ 65,717
1979:								
SUBSIDIARIES CONSOLIDATED:								
McCrory Corporation					$ 207	$ 60,975(7)	$ 39,145(1) 20,000(15)	$ 2,037
Schenley Industries, Inc.	$ 2,881	$ 7,600(1) 1,707(4)	$11,240	$ 948				
Glen Alden Corporation					23,909	1,833(7) 620	2,350(1)	24,012
Rapid-American Menswear, Inc.	2,107	1,647(1) 826	255	4,325				
RAAM Information Services Corporation	1,420	39 330(4)		1,789				
View Top Corporation	681	1,631(7)	76(1)	2,236				
Triple Eight Corporation	1,981	10	5(1)	1,986				
Theatre Venture Corporation	235	277(7)	17(1)	495				
Halston Menswear Inc.	947		947(12)					
	10,252	14,067	12,540	11,779	24,116	63,428	61,495	26,049
SUBSIDIARY NOT CONSOLIDATED:								
ILC Industries, Inc.	5,105	488	219	5,374				
	$15,357	$14,555	$12,759	$17,153	$24,116	$ 63,428	$ 61,495	$ 26,049

NOTES:

(1) Federal income taxes due to or from Parent Company.

(2) Issuance of 9.73% Note and related interest in exchange for Parent Company 6% debentures held by Schenley Industries, Inc.

(3) Trade receivables factored with Parent Company, net of cash transfers.

(4) Rent of premises.

(5) Services performed for Parent Company.

(6) Capital contribution of related party indebtedness.

(7) Net cash advances for operations.

(8) Subsidiaries at date of acquisition. See Note 1 to Financial Statements.

(9) Notes due to related parties included in long-term debt, less current maturities and unamortized discount.

(10) See Note 2 to Financial Statements.

(11) Assumed in merger with Kenton Corporation on January 31, 1981.

(12) Liquidated into Parent Company.

(13) Transfer between Affiliates.

(14) Received upon liquidation of Glen Alden Corporation.

(15) Dividends on common stock, including 1980, dividend of common stock and warrants, to Parent.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

PROPERTY, PLANT AND EQUIPMENT—COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1981

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Year	Additions	Sales or Retirements	Other Changes Add (Deduct)	Balance at End of Year
1981:					
COMPANY:					
Land	$ 296				$ 296
Buildings and warehouses	8,727				8,727
Furniture, fixtures and leasehold improvements	1,828	$ 88	$ 76	$ (1)(1) 370 (2)	2,209
Machinery and equipment	387	18	104	(5)(1) 83 (2)	379
	11,238	106	180	447	11,611
Capital leases	4,510		21	(998)(1) 412 (2) (725)(3)	3,178
Total	$ 15,748	$ 106	$ 201	$ (864)	$ 14,789
CONSOLIDATED:					
Land	$ 9,021	$ 1,491	$ 161	$ 1,556 (2)	$ 11,907
Buildings, store properties and warehouses	110,249	18,319	1,069	10,297 (2) (6)(4)	137,790
Furniture, fixtures and leasehold improvements	244,234	29,014	8,666	755 (2) (7,522)(4) (2,143)(5) (2)(6)	255,670
Machinery and equipment	89,248	6,812	2,584	2,856 (2) 2	96,334
	452,752	55,636	12,480	5,793	501,701
Capital leases	192,408	1,321	16,756	412 (2)	177,385
TOTAL	$645,160	$56,957	$29,236	$ 6,205	$679,086
1980:					
COMPANY:					
Land	$ 296				$ 296
Buildings and warehouses	8,727				8,727
Furniture, fixtures and leasehold improvements	1,412	$ 25	$ 304	$ 695 (7)	1,828
Machinery and equipment	2,058	91	1,793	31 (7)	387
	12,493	116	2,097	726	11,238
Capital leases	3,506	12	98	1,090 (7)	4,510
Total	$ 15,999	$ 128	$ 2,195	$ 1,816	$ 15,748
CONSOLIDATED:					
Land	$ 8,014	$ 1,084	$ 77		$ 9,021
Buildings, store properties and warehouses	97,129	14,366	1,245	$ (1)	110,249
Furniture, fixtures and leasehold improvements	229,766	28,857	5,215	660 (8) (8,217)(4) (1,619)(5) 2	244,234
Machinery and equipment	79,757	12,122	3,823	1,197 (8) (3) (2)	89,248
	414,666	56,429	10,360	(7,983)	452,752
Capital leases	208,531	3,860	6,894	2,392 (8) (7,711)(4) (7,770)(5)	192,408
Total	$623,197	$60,289	$17,254	$(21,072)	$645,160

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Year	Additions	Sales or Retirements	Other Changes Add (Deduct)	Balance at End of Year
1979:					
COMPANY:					
Land	$ 296				$ 296
Buildings and warehouses	8,727				8,727
Furniture, fixtures and leasehold improvements	1,420	$ 150	$ 148	$ (10)	1,412
Machinery and equipment	2,240	14	196		2,058
	12,683	164	344	(10)	12,493
Capital lease	3,506				3,506
Total	$ 16,189	$ 164	$ 344	$ (10)	$ 15,999
CONSOLIDATED:					
Land	$ 8,111	$ 7	$ 104		$ 8,014
Buildings, store properties and warehouses	91,639	7,670	1,996	$ (148)(4) (36)(6)	97,129
Furniture, fixtures and leasehold improvements	227,768	20,276	4,560	(12,935)(4) (16)(6) (767)(5)	229,766
Machinery and equipment	77,335	5,562	3,184	(8) 52 (6)	79,757
	404,853	33,515	9,844	(13,858)	414,666
Capital leases	219,128	4,068	5,047	(9,618)(4)	208,531
Total	$623,981	$37,583	$14,891	$(23,476)	$623,197

NOTES:

1. Transfer of fixed assets from Parent Company to a subsidiary.
2. Assets acquired in merger with Kenton Corporation on January 31, 1981. See Note 1 to Financial Statements.
3. Transfer from other balance sheet classification.
4. Fully depreciated and amortized assets written off against related reserves.
5. Charged to reserve for store closings.
6. Reclassification.
7. Transfer of fixed assets from a subsidiary to Parent Company.
8. Assets of company acquired during the year.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT—COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1981

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Sales or Retirements	Other Changes Add (Deduct)	Balance at End of Year
1981:					
COMPANY:					
Buildings and warehouses	$ 2,717	$ 278			$ 2,995
Furniture, fixtures and leasehold improvements	993	143	$ 56	$ (1)(1) 132 (2)	1,211
Machinery and equipment	177	31	96	(2)(1) 51 (2)	161
	3,887	452	152	180	4,367
Capital leases	2,016	46	17	(513)(1) 216 (2)	1,748
Total	$ 5,903	$ 498	$ 169	$ (117)	$ 6,115
CONSOLIDATED:					
Buildings, store properties and warehouses	$ 45,439	$ 4,645	$ 592	$ 3,791 (2) (6)(3)	$ 53,277
Furniture, fixtures and leasehold improvements	121,290	17,108	4,259	361 (2) (7,522)(3) (1,230)(4)	125,748
Machinery and equipment	53,393	4,488	2,071	1,920 (2)	57,730
Excess credit related to acquisition of J. J. Newberry Co.	4,739	(1,723)(5)			3,016
	224,861	24,518	6,922	(2,686)	239,771
Capital leases	125,880	7,859	$13,299	216 (2) 1,853 (4)	122,509
Total	$350,741	$32,377	$20,221	$ (617)	$362,280
1980:					
COMPANY:					
Buildings and warehouses	$ 2,439	$ 278			$ 2,717
Furniture, fixtures and leasehold improvements	510	134	$ 212	$ 561 (6)	993
Machinery and equipment	1,523	59	1,432	27 (6)	177
	4,472	471	1,644	588	3,887
Capital leases	1,464	172	92	472 (6)	2,016
Total	$ 5,936	$ 643	$ 1,736	$ 1,060	$ 5,903
CONSOLIDATED:					
Buildings, store properties and warehouses	$ 42,447	$ 3,597	$ 604	$ (1)	$ 45,439
Furniture, fixtures and leasehold improvements	117,863	15,195	3,094	257 (2) (8,217)(3) (714)(4)	121,290
Machinery and equipment	51,379	4,277	3,175	915 (2) (3)	53,393
Excess credit related to acquisition of J. J. Newberry Co.	6,972	(1,946)(5)	287		4,739
	218,661	21,123	7,160	(7,763)	224,861
Capital leases	134,405	8,734	4,999	453 (2) (7,711)(3) (5,002)(4)	125,880
Total	$353,066	$29,857	$12,159	$(20,023)	$350,741

(In Thousands)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Sales or Retirements	Other Changes Add (Deduct)	Balance at End of Year
1979:					
COMPANY:					
Buildings and warehouses	$ 2,161	$ 278			$ 2,439
Furniture, fixtures and leasehold improvements	500	153	$ 143		510
Machinery and equipment	1,583	88	148		1,523
	4,244	519	291		4,472
Capital lease	1,398	66			1,464
Total	$ 5,642	$ 585	$ 291		$ 5,936
CONSOLIDATED:					
Buildings, store properties and warehouses	$ 41,065	$ 2,881	$ 1,336	$ (148)(3) (15)(2)	$ 42,447
Furniture, fixtures and leasehold improvements	119,683	14,611	3,203	(12,935)(3) (18)(2) (275)(4)	117,863
Machinery and equipment	48,932	4,199	1,776	(9) 33 (2)	51,379
Excess credit related to acquisition of J. J. Newberry Co.	8,918	(1,946)(5)			6,972
	218,598	19,745	6,315	(13,367)	218,661
Capital leases	138,826	8,840	3,643	(9,618)(3)	134,405
Total	$357,424	$28,585	$ 9,958	$(22,985)	$353,066

OTES:

1. Transfer of accumulated depreciation from Parent Company to a subsidiary.
2. Reclassification and other changes.
3. Fully depreciated and amortized assets written off
4. Applied against reserve for store closings.
5. Represents the amortization of the excess of net assets acquired over the cost of the acquisition of J. J. Newberry Co (see Note 1 to Financial Statements).
6. Transfer of fixed assets from a subsidiary to Parent Company.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS—COMPANY AND CONSOLIDATED

For the Three Years Ended January 31, 1981
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
1981:					
COMPANY.					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable—trade	$ 865	$ 504		$ 403	$ 966
Doubtful accounts receivable—other(1)	586		$ 68	3	651
Total	1,451	504	68	406	1,617
Reserves for revaluation of investments in common stock of unconsolidated subsidiary(2)	416				416
Total	$ 1,867	$ 504	$ 68	$ 406	$ 2,033
CONSOLIDATED.					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 4,758	$ 1,210		$ 2,390	$ 3,578
Transportation claims	149				149
Allowance for discounts and allowances	101		$ 51		152
Total	5,008	1,210	51	2,390	3,879
Doubtful accounts receivable—other(1)	758	231	68	157	900
Total	5,766	1,441	119	2,547	4,779
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies(2)	7,191	843			8,034
Reserves for store closings	28,694	2,010(3)		7,430	23,274
Total	35,885	2,853		7,430	31,308
Total	$41,651	$ 4,294	$ 119	$ 9,977	$36,087
1980:					
COMPANY:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable—trade	$ 82	$ 1,133	$ 1,595(4)	$ 1,945	$ 865
Doubtful accounts receivable—other(1)	32	467	87(4)		586
Total	114	1,600	1,682	1,945	1,451
Reserves for revaluation of investment in common stock of unconsolidated subsidiary(2)	416				416
Total	$ 530	$ 1,600	$ 1,682	$ 1,945	$1,867
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable					
Trade	$ 4,395	$ 1,477		$ 1,114	$ 4,758
Transportation claims	149				149
Allowance for discounts and allowances	421	1,627		1,947	101
Total	4,965	3,104		3,061	5,008
Doubtful accounts receivable—other(1)	180	597	$ 350	369	758
Total	5,145	3,701	350	3,430	5,766
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies(2)	8,424	5		1,238	7,191
Reserves for store closings	32,363	2,306(3)	2,171(5)	8,146	28,694
Total	40,787	2,311	2,171	9,384	35,885
Total	$45,932	$ 6,012	$ 2,521	$12,814	$41,651
1979:					
COMPANY:					
Allowances deducted from assets to which they apply					
Doubtful accounts receivable—trade	$ 91	$ 9		$ 18	$ 82
Doubtful accounts receivable—other(1)	34			2	32
Total	125	9		20	114
Reserves for revaluation of investment in common stock of unconsolidated subsidiary(2)	413	3			416
Total	$ 538	$ 12		$ 20	$ 530
CONSOLIDATED:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 4,634	$1,225		$1,464	$4,395
Transportation claims	150			1	149
Allowance for discounts and allowances	637	612		828	421
Total	5,421	1,837		2,293	4,965
Doubtful accounts receivable—other(1)	206	38		64	180
Total	5,627	1,875		2,357	5,145
Reserves for revaluation of investment in common stock of unconsolidated subsidiary and affiliated companies(2)	7,135	1,289			8,424
Reserves for store closings	40,519	2,728(3)		10,884	32,363
Total	47,654	4,017		10,884	40,787
Total	$53,281	$5,892		$13,241	$45,932

NOTES:

1. Reserve account has been netted against applicable accounts receivable.
2. Deducted from investments to which they apply.
3. Includes imputed interest of $2,026,000 in 1981, $2,167,000 in 1980 and $2,588,000 in 1979.
4. Transfer from a subsidiary to Parent Company
5. Transfer of related capital lease obligation and excess credit.

INDEX TO EXHIBITS

Exhibits		Page No.
3(a)	Rapid's Certificate of Incorporation, annexed as Schedule C to Exhibit A to the Prospectus forming part of the Joint Registration Statement of Rapid and Kenton on Form S-14, File No. 2-70073 (the "Joint Registration Statement"), which is incorporated herein by reference.	*
(b)	Rapid's By-Laws, filed as Exhibit 3(b) to the Joint Registration Statement, which is incorporated herein by reference.	*
4(a)	Indenture, dated as of January 31, 1981, between Rapid and Bradford Trust Company, filed as Exhibit 4 to the Joint Registration Statement, which is incorporated herein by reference.	*
(b)**		
10(a)(1)	Employment Agreement between Schenley and Isidore A. Becker, dated as of August 1, 1975, filed as Exhibit 10(a)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*

*Incorporated by reference.

**For a description of Rapid's other long-term indebtedness, see Note 6 to Financial Statements. Rapid agrees to furnish to the Commission copies of such instruments upon its request.

(2) Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of August 1, 1975, between Schenley and Isidore A. Becker, filed as Exhibit 10(a)(2) to the Joint Registration Statement, which is incorporated herein by reference. *

(b) Employment Agreement between McCrory and Bernard J. Blaney, dated as of July 1, 1980, filed as Exhibit 10(b) to the Joint Registration Statement, which is incorporated herein by reference. *

(c)(1) Employment Agreement between McCrory and Harold S. Divine, dated as of February 1, 1980, filed as Exhibit 10(c)(1) to the Joint Registration Statement, which is incorporated herein by reference. *

(2) Letter Amendment, dated September 29, 1980, to the Employment Agreement, dated as of February 1, 1980, between McCrory and Harold S. Divine, filed as Exhibit 10(c)(2) to the Joint Registration Statement, which is incorporated herein by reference. *

(d) Employment Agreement between Schenley and Howard S. Feldman, dated as of March 1, 1973, as amended. E-5 ***

*Incorporated by reference.

*** Exhibit omitted.

Exhibits		Page No.
(e)(1)	Employment Agreement between McCrory and Arie Genger, dated as of February 1, 1980, filed as Exhibit 10(d)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Letter Agreement, dated as of February 1, 1980, relating to the Employment Agreement of even date between McCrory and Arie Genger, filed as Exhibit 10(d)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(f)(1)	Employment Agreement between Rapid and Leonard C. Lane, dated as of February 1, 1974, filed as Exhibit 10(e)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of February 1, 1974, between Rapid and Leonard C. Lane, filed as Exhibit 10(e)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(g)	Employment Agreement between McCrory and Ben Litwak, dated as of February 1, 1981.	E-6 ***
(h)	Employment Agreement between Rapid and Meshulam Riklis, dated as of November 20, 1972, filed as Exhibit 10(g) to the Joint Registration Statement, which is incorporated herein by reference.	*

*Incorporated by reference.

*** **Exhibit omitted.**

Exhibits		Page No.
(i)	Schenley's Employees' Retirement and Benefit Plan, Restated effective January 1, 1976 and as Amended through May 24, 1979, filed as Exhibit 10(j) to the Joint Registration Statement, which is incorporated herein by reference.	*
(j)	McCrory's Plan of Retirement for Directors, adopted January 10, 1978, filed as Exhibit 10(k) to the Joint Registration Statement, which is incorporated herein by reference.	*
(k)	Agreement, dated March 1, 1979, between Harold S. Divine and Kenton, filed as Exhibit 10(r) to the Joint Registration Statement, which is incorporated herein by reference.	*
(l)	Agreement, dated March 1, 1979, between Daniel J. Manella and Kenton, filed as Exhibit 10(s) to the Joint Registration Statement, which is incorporated herein by reference.	*
11.	Rapid and Subsidiaries Computation of Net Income Per Common Share.	E-7
12.	Rapid and Subsidiaries Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends Combined.	E-8
13.	Omitted (Inapplicable).	
19.	Omitted (Inapplicable).	
20.	Omitted (Inapplicable).	
22.	Subsidiaries of Rapid.	E-9

*Incorporated by reference.

COMPUTATION OF NET INCOME PER COMMON SHARE

The computation of primary income per share is summarized as follows:

	Year Ended January 31,				
	1981	1980	1979	1978	1977
	(In Thousands, Except Per Share Amounts)				
Computation of Primary Net Income Applicable to Common Stockholders					
Net income applicable to common stockholders ..	$18,259	$30,987	$42,624	$45,765	$11,917
Add - assumed adjustments to net income resulting from:					
Reduction of interest expense arising from proceeds of assumed exercise of warrants applied to the assumed repurchase of debt, net of applicable Federal income tax	-	4,855	4,067	-	-
Primary net income applicable to common stockholders	$18,259	$35,842	$46,691	$45,765	$11,917
Computation of Primary Shares					
Weighted average shares outstanding	5,150	6,614	7,756	7,854	7,734
Add shares assumed to be issued upon:					
Exercise of warrants, net of repurchase with proceeds from exercise thereof	-	1,262	989	-	-
Primary shares	5,150	7,876	8,745	7,854	7,734
Primary Income Per Share	$ 3.55	$ 4.55	$ 5.34	$ 5.83	$ 1.54

The computation of fully diluted income per share is summarized as follows:

	Year Ended January 31,				
	1981	1980	1979	1978	1977
	(In Thousands, Except Per Share Amounts)				
Computation of Fully Diluted Net Income					
Net income applicable to common stockholders ..	$18,259	$30,987	$42,624	$45,765	$11,917
Add assumed adjustments to net income resulting from:					
Reduction of interest expense on convertible debt assumed converted and from proceeds of assumed exercise of warrants applied to the assumed repurchase of debt, net of applicable Federal income tax	123	7,731	6,670	120	-
Convertible preferred dividends	254	656	889	942	918
Total	377	8,387	7,559	1,062	918
Fully diluted net income	$18,636	$39,374	$50,183	$46,827	$12,835
Computation of Fully Diluted Shares					
Shares used for computation of primary income per share	5,150	7,876	8,745	7,854	7,734
Add shares assumed to be issued (exclusive of common stock equivalents included in shares used for computation of primary income per share) upon:					
Exercise of warrants, net of repurchase with proceeds from exercise thereof	-	990	990	-	-
Conversion of convertible preferred stocks	310	878	1,185	1,260	1,263
Conversion of convertible debentures and notes	48	48	48	48	-
Fully diluted shares	5,508	9,792	10,968	9,162	8,997
Fully Diluted Income Per Share	$ 3.38	$ 4.02	$ 4.58	$ 5.11	$ 1.43

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS COMBINED

	Year Ended January 31, 1981	1980	1979	1978	1977
	(In Thousands, Except Ratios)				
Earnings as defined:					
Income before income taxes and extraordinary credits (1)	$ 50,442	$ 63,333	$ 78,427	$ 42,506	$ 38,295
Add: Fixed charges as defined:					
Interest and debt expense (2)	114,489	120,127	109,515	102,608	102,268
One third of annual rents (3)	30,419	28,075	25,881	24,643	23,851
Total fixed charges	144,908	148,202	135,396	127,251	126,119
Preferred dividend requirements (4)	17,235	6,696	3,466	3,708	3,890
Total fixed charges and preferred dividend requirements, as defined	162,143	154,898	138,862	130,959	130,009
Total earnings, as defined	$195,350	$211,535	$213,823	$169,757	$164,414
Ratio of earnings to fixed charges and preferred dividends combined	1.20	1.37	1.54	1.30	1.26
(1) Income before income taxes and extraordinary credits:					
Income from continuing operations	$ 50,422	$ 63,333	$ 78,427	$ 57,006	$ 38,295
Loss from operations discontinued or sold - net	-	-	-	(7,500)	-
Income taxes on operations discontinued or sold	-	-	-	(7,000)	-
Total (to above)	$ 50,442	$ 63,333	$ 78,427	$ 42,506	$ 38,295
(2) Interest and debt expense:					
Per statement of consolidated operations	$117,606	$122,588	$111,267	$103,929	$103,807
McCrory Credit/Otasco Credit - net adjustment	(3,117)	(2,461)	(1,752)	(1,321)	(1,539)
Total (to above)	$114,489	$120,127	$109,515	$102,608	$102,268

(3) Representative of interest on operating leases.

(4) Preferred dividends on a pretax basis.

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

The following table sets forth certain information, as of April 15, 1981, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Parent (1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%(3)	Delaware
McGregor-Doniger Inc.	100%(3)	New York
Melville Knitwear Co., Inc.	100%(4)	New York
Shenandoah Corporation	100%	Delaware
Plastic Toy and Novelty Corp.	100%	Delaware
Donagain Corp.	100%	New York
Anvil Brand, Inc.	100%(3)	Delaware
Rapid-American Menswear, Inc.	100%(3)	Delaware
Rapid Distribution Service, Inc. ...	100%	Delaware
RAAM Information Services Corporation	100%	Delaware
View Top Corporation	100%	Delaware
ILC Industries	74%	Delaware
Leeds (Israel) Ltd.	100%	Israel
Theatre Venture, Inc.	100%	Delaware
Triple Eight Corporation	100%	Delaware
Subsidiaries of McCrory Corporation:		
Lerner Stores Corporation	100%(5)	Maryland
Otasco, Inc.	100%	Nevada
J. J. Newberry Co.	100%(6)	Delaware
Whimsy, Incorporated	100%	California
S. Klein Department Stores, Inc. ...	100%	New York
Subsidiaries of Lerner Stores Corporation:		
Lerner owns 100% of the voting securities of its 14 subsidiaries, five of which are real estate companies, and nine operate retail stores.		
Subsidiary of Otasco, Inc.:		
Otasco Credit Corporation	100%	Nevada

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiary of J. J. Newberry Co.:		
J. J. Newberry Canadian Ltd. (7) ...	100%	Canada
Subsidiaries of Schenley Industries, Inc.:		
AGE Bodegas Unidas, S.A.	49.3%	Spain
D.W.S. Corporation	100%	Quebec
Distributors of New England, Inc. ..	100%	Mass.
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York
L.E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp..	100%	New York
Schenley Affiliated Brands Corp. ...	100%	New York
Schenley Charge Plan, Inc.	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Export Corporation	100%	New York
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Trans-American Distributing Corp. ..	100%	Delaware
Virgin Islands Rum Industries, Ltd..	100%	Virgin Islands
Subsidiary of D.W.S. Corporation:		
Schenley Canada Inc.	100%	Quebec
Subsidiaries of Schenley Canada Inc.:		
Canadian Gibson Distillery Ltd.	100%	Canada
Park & Tilford Canada Inc.	100%	British-Columbia
Quebec Distillers Ltd.	100%	Quebec
John MacNaughton Co. Ltd.	100%	Quebec
Schenley Wines and Spirits Ltd.	100%	Canada
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Illinois

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiary of Schenley Affiliated Brands Corp:		
Wine & Spirits Merchandisers, Inc...	100%	Illinois
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiaries of Anvil Brand, Incorporated:		
Almar Manufacturing Corp.	100%	Delaware
The Botany Shirt Company, Inc.	100%	Delaware
Beau Brummell Ties, Inc.	100%	New York
Friedman Marks, Inc.	100%	Delaware
Gilead Manufacturing Corporation ...	100%	Rhode Island
Wonderknit Corporation	100%	New York
Subsidiary of ILC Industries, Inc.:		
ILC Data Device Corporation	100%	Delaware
Subsidiaries of ILC Data Device Corporation:		
ILC Data Device Export Corporation...	98.8%	Delaware
Beta Transformer Technology Corporation	100%	New York
DDC United Kingdom Ltd.	100%	Delaware
DDC Electronique, S.A.	100%	France

(1) For information concerning Riklis Family Corporation and AFC, see "Introductory Note", Item 4 - "Security Ownership of Certain Beneficial Owners and Management" and Note 2 to Financial Statements.
(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power. These shares are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 6 to Financial Statements.
(3) All voting securities are pledged to secure Rapid's guarantee of McCrory's bank indebtedness. See Note 6 to Financial Statements.
(4) All voting securities are pledged to secure certain Rapid bank indebtedness. See Note 6 to Financial Statements.
(5) All voting securities are pledged to secure borrowings of McCrory. See Note 6 to Financial Statements.
(6) Arrearages in preferred dividends entitle the holders of such stock to elect two directors to the Board of Directors of J. J. Newberry Co.
(7) Includes 37.4% owned by non-significant Canadian subsidiaries of J. J. Newberry Co.